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PROMOTING RAPID, SUSTAINABLE AND PRO-POOR ECONOMIC GROWTH FOR ACHIEVING MILLENNIUM DEVELOPMENT GOALS IN VIET NAM

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Summary

This synthesis paper summarises findings of selected studies on the broad topics of rapid, sustainable and pro-poor growth in Viet Nam and in Asia towards achieving the Millennium Development Goals carried out and/or commissioned by the UNDP's Asia-Pacific Regional Programme on the Macroeconomics of Poverty Reduction, UNDP's Viet Nam country's office, ILO and Sida during the 2002-2004 period. Drawing on extensive Asian and Vietnamese experience, these studies made a number of recommendations on active pro-poor fiscal, monetary and other macroeconomics policies, efficiency of public investments, development of private sector including small- and medium-scale enterprises with special focus on employment creation, public administration reforms – all aim at making economic growth more rapid, sustainable and pro-poor, and development more inclusive of the poor.

INTRODUCTION

During the 1990s, Viet Nam has achieved rapid and broad-based economic growth, resulting in remarkable progress across a range of Millennium Development Goal (MDG) indicators. Viet Nam is one of the few countries in the world in which poverty, however measured, declined dramatically within a relatively short period of 1993-2002, thus putting the country well ahead of the MDG schedule. Other non-income indicators of household welfare such as primary school enrolment rates, infant mortality rate, and malnutrition among children below the age of five also improved impressively.

By signing the Millennium Declaration in September 2000, the leaders of Viet Nam have demonstrated the country's strong commitment to further improving the welfare of its citizens with special attention given to the poor people. By approving the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) in May 2002, the Government of Viet Nam has elaborated its action plan to sustain high economic growth and fast poverty reduction. Strong political commitment and high level support provide a firm foundation for the country to achieve Viet Nam Development Goals (VDGs - the national development goals that are closely linked to MDGs) by the year 2010 and MDGs by the year 2015.

However, most recent evidence suggests that both economic growth and poverty reduction have slowed down in recent years, and Viet Nam appears to have fallen behind the schedule with reference to some MDG indicators. While there are good reasons for optimism about the future, one should also be aware of the experience in many developing countries over the last fifty years of extended periods of rapid GDP growth followed by periods of retrenchment. Growth periods have tended to coincide with easy access to finance and improvements in human well-being. In many cases growth was halted by external shocks, but domestic policies have also played a role. With this background in mind, Viet Nam cannot afford to be complacent. Instead, policymakers must give due consideration to issues of sustainability and strengthening the link between growth and poverty reduction.

The donor community strongly supports the Government of Viet Nam in its endeavour to achieve rapid, equitable and sustainable economic growth. Support is provided not only in the form of funding, but also through research-based policy advice. In this context, UNDP, ILO and Sida, during the 2002-2004 period, have commissioned a number of studies (see the list of the papers arising out of these studies at the end of this paper) on current issues such as MDG monitoring, the macroeconomics of poverty reduction, employment generation, improving the quality of investments and private sector development. All of these studies are in some way oriented towards improving the welfare of the people of Viet Nam.

This short synthesis paper attempts to summarise main findings of these studies in a language that is accessible to non-technical readers. Instead of providing a summary for each of the studies, the paper presents key findings around a few broad issues relating to the determinants of rapid and sustainable reduction of poverty in its multiple dimensions, such as economic growth and inequality, macroeconomic stability, public expenditure and public investment, employment generation, and private sector and institutional development. The findings of these various studies differ from one another on some specific issues. This should be viewed in a positive way and as a strength, rather than weakness of this set of studies, as it helps us to move the current policy debate forward as we approach the next five-year plan. The differences among the papers as well as the new data and recent trends as identified by the participants in the workshop "Growth – Employment – Poverty Reduction in Viet Nam: Past Experience and Challenges Ahead", which was jointly organised by MPI, ILO, Sida and UNDP in Ha Noi on 6 October 2004, could also help to identify areas for further research on the important topics of pro-poor macroeconomics, employment and poverty reduction.

1. SEEKING PRO-POOR GROWTH AND INCLUSIVE DEVELOPMENT FOR ACHIEVING MDGS: THE 'WHYs'

Many donors presently advocate pro-poor growth[1] and inclusive development[2] as a means of achieving the MDGs. The relationship between economic growth and poverty reduction is currently high on the global research agenda and in policy debates because of its significant policy relevance. If this link is strong, focus can be made exclusively on policies that lead to high and sustainable economic growth, as a substantial drop in poverty incidence would automatically follow. On the contrary, if this relationship is loose, rapid economic growth alone is not sufficient for fast poverty reduction. Policies should then be sought to generate the right pattern of growth as a means to achieve this and other important MDG indicators.

1.1. Why Growth is Necessary, but Not Sufficient for Poverty Reduction: Evidence from Asia on the Growth-Poverty Linkage

To understand the complex growth-poverty relationship, UNDP has implemented an Asia-Pacific Regional Research Programme on the Macroeconomics of Poverty Reduction. As a part of this programme, in 2004 Pasha and Palanivel collected evidence from nine countries in East Asia including Cambodia, China, Indonesia, Lao PDR, Malaysia, Mongolia, Philippines, Thailand, and Viet Nam, and five South Asian countries including Bangladesh, India, Nepal, Pakistan and Sri Lanka. Their analysis reveals, as can be seen in Figure 1, a strong positive relationship between growth and poverty reduction. At the same time, this relationship is highly variable across countries and time periods (in the figure, the small squares are scattered widely around the line). There are countries which were able to bring down poverty in particular periods despite achieving only modest growth or even a fall in per capita income. Examples include India (in the 1970s) and the Philippines (in the 1980s and 1990s). There are also cases to the contrary where countries were unable to reduce poverty despite achieving fairly high rates of growth in per capita income. Thailand (in the 1980s), Malaysia (in the 1990s) and Sri Lanka (in the 1990s) are examples of such a failure (UNDP 2004b, p. 6).

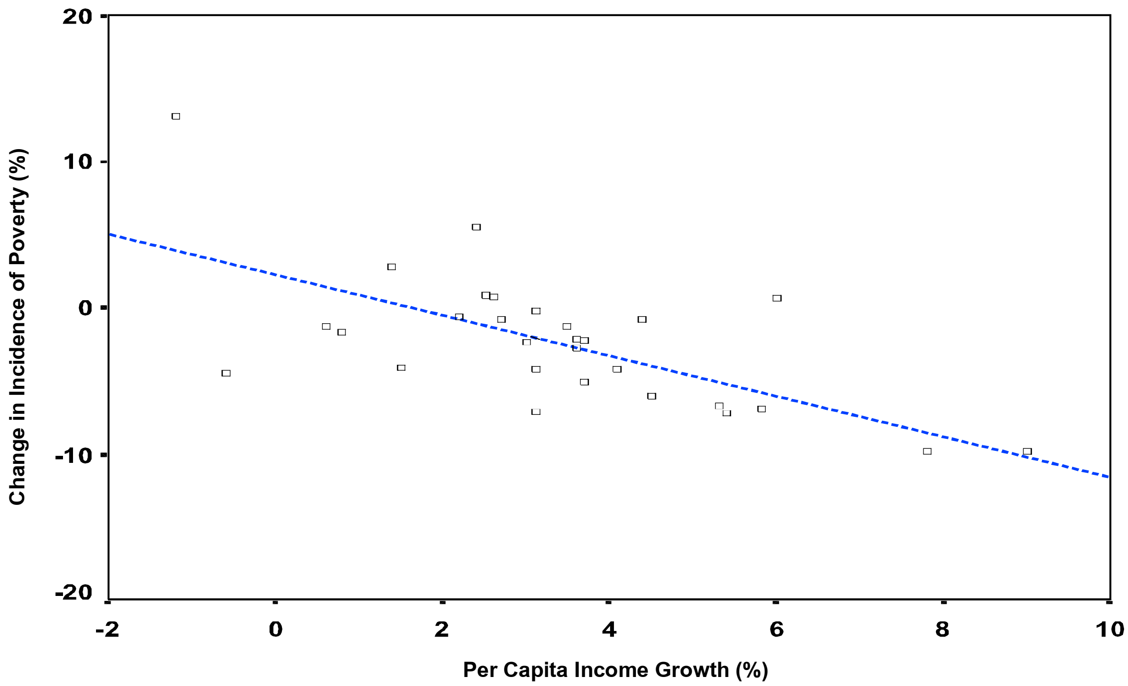
Viet Nam, as shown in Weeks et al (UNDP 2003a), has performed very well during the 1990s and the early 2000s, when high economic growth went hand in hand with fast poverty reduction. However, it is also evident that the poverty-reducing effect of economic growth has declined in recent years. One percent of GDP growth in 1993-1998 led to 0.77% drop in the number of the poor, but only 0.66% in 1998-2002 (UNDP 2003a, pp. 25-26). This fact should deserve attention from policy makers due to its direct policy relevance: the decline in the poverty-reducing effect of growth raises the costs (in the form of higher investment needed at the expense of consumption today) of achieving this important MDG indicator. The higher the incremental capital-output ratio (ICOR), the higher this cost is, and consequently, the more valuable policies that promote pro-poor growth are.

A key lesson that can be drawn here is the following: *economic growth is a necessary condition for poverty reduction, but it is not sufficient*. This is true not only across countries, but over time within a given country. Economic growth, however important it is, is not an end result in itself, but just a means for achieving improvements in the multiple dimensions of human well-being. Therefore, what policy makers should seek are not only high rates of growth, but also types or *patterns and sources of growth* that help the country to achieve its development goals in the fastest way possible, within the given resource constraints. The relative importance of the growth rate vis-à-vis the growth pattern changes over time and needs to be analysed carefully when long-term strategies and plans are designed.

[1] There are some different definitions of pro-poor growth. In UNDP 2003a, to which this synthesis report makes frequent reference, pro-poor growth is defined as growth that results in a redistribution of income to the poor, however defined. For example, in period zero, the poor (say the first quintile) have an income share of 4%. If in period *t*, the share is still 4%, growth is poor-neutral; if it is 3% in period *t*, growth is anti-poor; if it is 5% in period *t*, growth is pro-poor.

[2] Inclusive development simply means the type of development in which all people including the poor can adequately participate.

Figure 1. Relationship between Change in Incidence of Poverty (%) and Per Capita Income Growth (%)



Source: UNDP 2004b, p.7..

1.2. Why Inequality Causes Considerable Concerns Presently?

Together with poverty reduction, inequality features prominently in the current global policy debate. Accumulating evidence suggests that growth in the developing world over the last two decades has been slower than for the previous twenty years, and notably, it has been accompanied by increasing inequality. During the 1990s, while growth was rapid in many of the Asian countries before the financial crisis of 1997, increased inequality appears to apply to the region with few exceptions (UNDP 2004b, p. 3). Worsening inequality is also evident in Viet Nam in the 1990s and the early 2000s. The Gini coefficient[3] measured in consumption expenditure terms has risen further to some 0.37 in 2002, up from 0.35 in 1998 and 0.33 in 1993. The income-based Gini coefficient has risen to around 0.42, close to the same order as China's income-based Gini coefficient, but at a much lower level of income per capita in the case of Viet Nam. In terms of non-food expenditures, the Gini coefficient has risen to some 0.49, reflecting much greater inequality[4]. Equally noteworthy, wide regional disparities are also consistently observed in other dimensions of human well-being such as child nutrition, maternal health and access to clean water (UNDP 2003, p. iv).

Rising inequality causes serious concerns for a number of reasons. First, increasing inequality after some point proves dysfunctional, and even immoral, resulting in social exclusion, crime, political instability and social unrest, which are non-economic factors that can eventually negatively affect the rate and the quality of

[3] Gini coefficient is a measure of inequality, which takes values between 0 and 1. Gini coefficient equal to 0 means there is no inequality, or in other words, everybody in the society has an equal share of the total wealth. Gini coefficient equal to 1 means the maximum level of inequality, in which one person takes the whole wealth and the remaining population are left with nothing.

[4] There is also anecdotal evidence of widening income disparities and inequality: prices of real estate in many cities have rocketed in recent years as opposed to very low inflation and depressed prices of agricultural products providing a clear indication of widening income gap between the rich and the poor.

economic growth. Second, economic growth is desirable in itself; though increasing the rate of growth is not always rational in terms of achieving a broad range of development goals including the reduction of poverty in its multiple dimensions.

At the ideological level, high level of inequality is unacceptable in Viet Nam, as the country is strongly committed to its socialist orientation with a certain set of social values, while moving towards a market economy. Therefore, if growth leads to too much inequality, such growth cannot help it to achieve the country's set objectives.

At a practical level, the cost of rising inequality in terms of poverty reduction is also high. According to Weeks et al, despite impressive growth and poverty reduction during 1993-1998, more than a third of potential poverty reduction was cancelled out by the increase in inequality; or, put another way, had growth been distribution-neutral, poverty would have fallen by two-thirds, rather than by two-fifth in this period (UNDP 2004a, p. 72). It is widely agreed that equal distribution of assets at the beginning of the reform period was key to broad-based economic growth resulting in rapid poverty reduction in Viet Nam during the last 15 years. As explained in UNDP 2002), considerable broad-based social investment prior to 1986 in human resource development, especially in basic health and education, helped develop Viet Nam's human capabilities and laid the foundation for the initial major success of *doi moi* (UNDP 2002, p. 1). Evidence from Asia also suggests that the degree of inequality is a key determinant of the intensity of the growth - poverty reduction relationship. For a given growth rate, the implications for the level of poverty are likely to be more favourable if there is simultaneously a reduction in inequality such that the income of the poor rises disproportionately in relation to the increase in average income in the economy. For example, as noted in UNDP 2004b, despite growth in per capita income of about 3%, Malaysia and Sri Lanka in the 1980s were able to reduce poverty annually by as much as 4-7% due to falling inequality. Equitable growth is thus key to poverty reduction.

At the theoretical level, rising inequality beyond certain thresholds can potentially lead to a reversal of poverty reduction even when the economy keeps growing. This possibility is explained in Box 1, which is drawn from Weeks et al (UNDP 2003).

Weeks et al also noted that the increased inequality naturally associated with the transition from central planning to the market could be divided conceptually between that which was functionally necessary and that which was not. The former can then in turn be divided between that which is judged by society to be acceptable and that which is not.[5] Equally noteworthy, international experience indicates that if inequality rises beyond a certain level, it would result in high social and economic costs and will become extremely difficult to be reversed because of then established strong vested interests and institutions (UNDP 2004a, pp. 19, 22). Thus, not inequality itself, but types and degree of inequality that are socially unacceptable and/or excessive are a main policy concern.

While the above discussion of inequality at the theoretical level with reference to a possibility of the reversal in poverty reduction cannot provide operational guidance for practitioners, its real value is to remind us of the danger of inequitable and anti-poor patterns of growth, which are latent in transitional economies. That possibility should not be neglected by policy makers while designing long- and medium-term socio-economic plans, particularly in the context of the slowdown in economic growth and poverty reduction accompanied by rising inequality. Moreover, Weeks et al noted that Viet Nam has a greater advantage than many countries in Asia: with market-generated poverty in its incipient stage, it is open to the Government of Viet Nam to 'nip it in the bud' (UNDP 2004a, p. 26).

The main conclusion of this section is that growth is necessary, but is becoming increasingly insufficient, as the economy develops. As growth in itself is not the final objective, but a means to raising human well-being in its multiple dimensions, the right pattern of growth should be sought to achieve the MDGs in the fastest way possible.

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[5] For example, inherited wealth as a means of transfer between generations is acceptable, although it might not be allocatively efficient.

Box 1. Basic Poverty, Market-Generated Poverty and the Possibility of Poverty Reduction Reversal during the Growth Period

According to Weeks et al, the distinction between the phases of transitional countries, regime change (the shift from central planning towards a market economy) and regulatory change (changes in the form of various types of deregulation within the market-based economy), provides insights into the dynamics of poverty in Viet Nam.

Poverty before Viet Nam's regime change might be called "basic poverty", which resulted from the country's very low level of development. The rapid, market-based growth of GDP that followed the regime change created new income generating activities, especially in trade and services, and also redistributed income from the public sector to households, through the reorganisation of agricultural production from administrative allocation to market control. The vast majority of Vietnamese enjoyed rising incomes as a result of the fundamental reorganisation of economic activity, leading to a large fall in the national poverty level, from 58% in 1993 to 37% in 1998, resulted primarily from economic growth as such. However, one would expect basic poverty to decline towards a steady-state level determined by the social mechanisms that exclude households from participating in and benefiting from growth.

Market-based economic growth generates poverty, especially in transitional countries. Unlike in low-income market societies, prior to the regime change Viet Nam had little or no poverty resulting from landlessness or unemployment. Fundamental to the transformation of the economy to market-regulated was a reallocation of assets on the basis of private ownership. On the one hand, this created new mechanisms for private income generation; on the other hand, it produced a phenomenon new for Viet Nam, poverty resulting from loss or lack of access to productive assets. Gainful employment became dependent upon use rights to land, wage employment by those who had productive assets, or access to credit for self-employment. The poverty resulting from unemployment or lack of access to decent work, and landlessness might be called 'market-generated' poverty.

This distinction between basic and market-generated poverty can be used to interpret the impact of economic growth on poverty reduction in transitional economies. There are two opposite forces operating at the same time. On the one hand, growth reduces basic poverty by raising incomes in existing economic activities, and creates new activities into which people are drawn. On the other hand, inherent in the creation of new activities are allocative changes that generate unemployment and landlessness, leading to a rise in poverty.

The rapid fall in poverty during the 1990s was the result of economic growth reducing basic poverty, while the emergence of market-based poverty was incipient. Whether poverty levels will continue to decline with economic growth depends on two broad processes: (i) the steady-state level to which basic poverty will decline, which might be called "structural" (or "hardcore") poverty; and (ii) the balance between market-based employment creation and market-generated landlessness and unemployment. From this analysis it follows that the rapid poverty reduction associated with economic growth of the 1990s may not be a trend that can be projected into the next and subsequent decades. Increasingly, the relationship between poverty reduction and growth will reflect the balance between employment growth and poverty-generating structural change.

There are several reasons to anticipate a decline in poverty-reducing effect of growth. In the densely populated areas of rural Viet Nam, a shift from rice cultivation to 'higher value added crops' *may* result in land and labour use systems that reduce employment per unit of land. The restructuring of state enterprises may potentially generate unemployment, if not supported by appropriate complementary policies. These and other structural changes create the possibility that rising household incomes for the population as a whole could be accompanied by a period of rising poverty levels. If the structural change associated with income growth is biased against lower income deciles, to unemployment and landless poverty could be added the "working poor". Thus, growth based on inequitable distribution of assets (land, capital, education etc.) and opportunities may result in the reversal of poverty reduction.

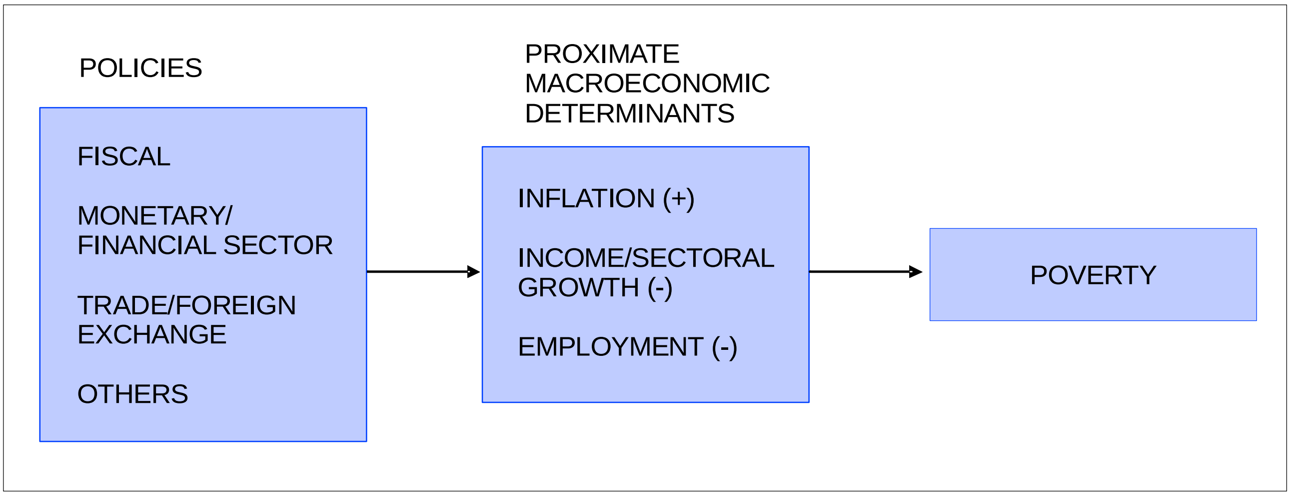
Source: Excerpt from UNDP 2004a, pp. 22-26).

2. PROMOTING PRO-POOR GROWTH FOR ACHIEVING MDGs: THE 'HOWs'

If the first section draws on international and Vietnamese evidence to explain ***why*** pro-poor growth should be sought for fast poverty reduction, this section will focus on discussion of ***how*** to promote pro-poor growth for achieving VDGs by 2010 and MDGs by 2015. The discussion will hopefully provide some useful insights and practical guidance for policy makers on the eve of the forthcoming preparation of the next five-year plan.

To move from the 'whys' to the 'hows' in this context is practically equivalent to mapping from an objective of growth-based poverty reduction - through intermediate steps (called determinants or channels) - to policy variables that are under the control of the Government. A variant of such mapping, which is made on the basis of theory and international evidence, is presented in UNDP 2004b.

Figure 2. The Methodological Framework



*Source:*UNDP 2004*b*, p.4.

A modified version of this schematic representation will be used for presentation of findings on the 'hows' of UNDP/ILO/Sida studies in what follows.

2.1. Macroeconomic Determinants of Sustainable Poverty Reduction

2.1.1. Macroeconomic Stability and Poverty Reduction

The status of macroeconomic stability affects the poor and poverty reduction both directly and indirectly.

Inflation, which is one aggregate indicator of the degree of macroeconomic stability, *directly* affects the poor through a decline of the poor's cash and wage incomes, and cash savings in real terms. The impact is particularly severe if inflation is high and unanticipated, as the poor are generally unable to hedge against inflation. Food inflation has an ambiguous impact on the level of poverty, negatively affecting net food-buying poor while benefiting net food-selling poor. *Indirectly,* high inflation and deterioration of other macroeconomic indicators (fiscal deficit, current account deficit, external debt etc.) affect the poor through (i) slower economic growth; and (ii) narrowing the scope of pro-poor public policy interventions (such as public expenditures and other redistribution policies in favour of the poor etc.). If indicators of macroeconomic stability are favourable, the Government may have more of a free hand (i.e. more instruments available) to pursue pro-poor policies, and vice verse. But the final result in terms of poverty reduction to a large extent depends on whether the Government *actually* and *properly* uses the instruments available in the context of macroeconomic stability.

Overall, *severe* deterioration of indicators of macroeconomic stability tends to raise the poverty level in the country (the plus sign attached to inflation in Figure 2). Policy debate is focused on what level of inflation is the threshold below (above) which the Government can have more (less) flexibility in manipulating policies and instruments in favour of the poor in a sustainable way. This threshold is very much the subject of empirical investigation.

Drawing on empirical evidence from the fourteen countries in Asia over the last three decades, Pasha and Palanivel (UNDP 2004b) find that the *direct* effect of inflation on the incidence of poverty does not appear to be significant in the Asian context, if inflation rates are *within* the range of -1.1% (deflation) ÷ + 17.5%, with mean and median values of 7.5% and 7.9% respectively (outlier cases of Mongolia 65.6% and Lao PDR 34.1% during the 1990s are excluded). In other words, the trade-off faced by policies, fiscal or monetary, between growth and inflation from the viewpoint of poverty impact is not as severe as has traditionally been thought (UNDP 2004b, p. 12). This finding has a very important policy implication, as it strengthens the case for pursuing expansionary fiscal and monetary policies in favour of the poor at a time when space already exists, as inflation rates are currently low throughout the region.

Evidence from Viet Nam also shows favourable macroeconomic conditions. Inflation, as well as other indicators of macroeconomic stability (such as GDP and export growth rates, current external account and external debt etc.) in Viet Nam are within the range and in general favourably compared to other countries in the region (UNDP 2004a, pp. 56-60, p. 151). Economic and export growth (averaging around 7% and 20% respectively during the period from 1990 to present) and control of inflation (average inflation rate of 3.7% during the 1990s, i.e. at the lower end of the above mentioned range) are widely acknowledged as Viet Nam's great successes. The current account was brought back to surplus towards the end of 1990s and in 2000 and 2001. It has moved into deficit again, but most commentators see it as within the range, if transitory elements of the deficit are considered. Fiscal deficits and bad bank loans are kept at acceptable levels. External debt was brought back to the level that is considered reasonable by international standards, after the debt to Russia was re-valued and rescheduled. These indicators are recognised as the strengths of the Vietnamese economy (Dapice, 2003, p. 2), and with such quite healthy status of the economy, Weeks et al think that the Government has considerable scope for pursuing pro-active pro-poor public policies.

2.1.2. Sectoral Growth and Poverty Reduction

There is a substantial body of literature that argues that it is not only overall growth that matters for poverty reduction, but that the pattern of growth also matters. At a given aggregate growth rate, the poverty impact depends on where growth comes from. If growth is concentrated on sectors where most poor and low-income people work, this impact would be the largest and vice verse.

Agriculture is a sector where many poor people in developing countries in Asia work. There is evidence from these countries that where rapid agricultural growth of 4.4% on average occurred along with overall rapid economic growth of 3% per annum or higher, poverty incidence fell sharply, by 5.7% per annum on average. When agricultural growth was slower and lagged behind growth in other sectors, the poverty reduction performance was more modest, at about 2% of reduction in poverty incidence per annum. The evidence also points to the fact that progress in bringing down poverty was retarded (China in the 1970s, India during the 1980s and 1990s and Thailand in the 1990s) due to slow progress of agriculture during these periods (UNDP 2004b, p. 16).

The strong linkage between agricultural growth and poverty reduction is confirmed in the case of Viet Nam, particularly during the 1990s. Weeks et al (UNDP 2004a) and Pham Lan Huong et al (ILO 2003) point out that robust agricultural growth during the 1990s is an important explanation for broad-based growth in Viet Nam during the 1990s, as it has made significant contribution to the sharp reduction in basic poverty during this period. An emerging rural non-farm sector was also attributable to reducing poverty. However, the relative importance of agriculture for poverty reduction has been declining as the economy develops, since agricultural growth was increasingly accompanied by rising productivity, which historically has resulted in lower labour absorption. This implies that growth should be balanced between agriculture and non-agriculture (UNDP 2004a, p. 80), presumably with more attention to be given to labour-intensive manufacturing industries in the future. However, during the second half of the 1990s the industrial policy tended to favour capital-intensive industries, which resulted in a sluggish “Lewis transition” and stagnation of the labour force in low-income agriculture (Pham Lan Huong et al, 2003).

Strong engagement in exports by sectors which employ a significant proportion of the poor or have strong forward and backward linkages to the-poor-employing sectors is seen to be essential to poverty reduction. Evidence from the 1990s in Viet Nam indicates a strong correlation between export and overall growth, and most notably growth of agricultural and labour-intensive manufacturing such as textile and garment, and footwear sectors. Therefore there are reasons to believe that the poor have benefited adequately from the past impressive export performance. However, based on evidence on textile and garment sector, which is both strongly export-oriented and labour intensive, Weeks et al find that there exist impediments to mobility of labour and, thereby, to participation of people in periphery and poorer provinces in the export-led growth process. For those migrants who find work in this sector, there exists a wage gap that cannot be explained by market-based factors such as education, training, skills, experience, location etc. (UNDP 2004a, p. 90).

2.1.3. Employment Growth and Poverty Reduction

The nexus of economic growth, employment and poverty reduction for seven countries from Asia, Africa and Latin America is investigated in great detail in a recent ILO paper by Islam (2004). The paper demonstrated that employment elasticity of economic growth is an important explanatory variable influencing poverty reduction alongside economic growth. The experience of countries that succeeded in reducing poverty indicates the importance of employment generation as the key link between growth and poverty reduction. Indeed, countries that have attained high rates of employment growth alongside high rates of economic growth are also the ones that have succeeded in reducing poverty significantly. It is especially true for Viet Nam, a poor country with abundant labour but scarcity of land and capital. As mentioned earlier, while high growth is important, the pattern and sources of growth as well as the manner in which its benefits are distributed are equally and increasingly important from the viewpoint of achieving the goal of poverty reduction. There is no invariant relationship between economic growth and poverty reduction. Unfortunately, the growth - employment - poverty linkage has not been adequately recognised in the pro-poor debate (UNDP 2004b, p. 13). Pro-poor growth in this regard is the one that is accompanied by intensive use of labour being the most abundant endowment of the poor.

With regard to employment, there are two equally important elements for rapid and sustainable poverty reduction: employment expansion (quantity aspect of employment) and high productivity (quality aspect of employment). Every pro-poor policy, directly or indirectly, seeks to create employment opportunities for the poor or improve productivity on a sustainable basis, especially in the sector employing the poor. Both elements raise the incomes of the poor and hence speed up the pace of poverty reduction.

A measure reflecting the nexus between employment and growth is employment elasticity of growth.[6] Evidence from Asia on employment elasticity of growth is mixed. According to Pasha and Palanivel, there is substantial variation in the rate of employment growth. For example, the growth rate of the Chinese economy was higher in the 1990s in relation to the 1980s, but while employment grew at almost 5% in the latter period, it increased by only 1% during the 1990s, despite faster growth. As opposed to this, in the presence of relatively slow

[6] Employment elasticity of growth is measured as the proportionate change in employment divided by the proportionate change in GDP during a given period. A higher employment elasticity means a higher rate of growth of employment for a given increase in output. However, elasticities greater than unity imply declining labour productivity, and an elasticity of less than unity means that employment expansion is taking place alongside an increase in productivity.

growth, Sri Lanka was able to achieve almost a 4% growth in employment during the 1980s. However, the strong poverty-reducing effect of employment growth is unambiguous. In the cases where both rapid economic and employment growth was observed, the average rate of decline was close to 5.5%, whereas in the cases where fast growth was accompanied by relatively slow employment growth, the rate of fall in poverty was 4.2%. The importance of employment growth in contributing to poverty reduction appears to be even more pronounced in situations where the overall pace of economic growth is slow. It is observed that there are cases where employment growth in excess of 2.5% per annum was achieved despite a growth in per capita income of less than 3.5%. Poverty declined on the average in these cases by 2%. As opposed to this, in the cases of both slow economic and employment growth, poverty increased on an average by almost 1% per annum. These results therefore represent a strong confirmation of the view that employment growth is a key element in pro-poor growth (UNDP 2004b, p. 14).

Evidence in Viet Nam during the 1990s indicates that an impressive reduction in poverty in Viet Nam during the 1990s has come from a combination of employment expansion and improved quality of employment in the form of higher labour productivity. Major channels through which the benefits of growth reached the poor include improvement in real earnings and income of workers thanks to agricultural reform in rural areas and changes in the attitude towards the private sector that raise demand for products that the poor can supply. Rural households, the poorest and largest part of the economy, have raised their income by expanding employment and more efficient use of existing factors through diversification towards higher value crops and other products (e.g., livestock, aquaculture, and fruits), higher export orientation and a rise in the relative price of agricultural products. The linkage effect of agricultural growth was high growth of non-farm employment, especially in rural areas. In urban areas, those wanted to work could find jobs in the growing private sector.

Nevertheless, economic growth in Viet Nam during the period 1986-2001 by and large has not been accompanied by particularly high employment generation as some may have expected. Estimation of employment elasticity of growth by Pham Lan Huong et al (2003) at the aggregate level and by sector for Viet Nam suggests that on average, 1% economic growth created just about 0.3% additional employment. This level was lower than that in other countries in the region during a similar stage of development. High growth of the industrial sector was not accompanied by commensurate employment growth (only 0.18% employment for 1% growth). Growth in services contributed to a greater extent to employment creation (0.71% employment for 1% growth), but for the period 1998-2001 its economic growth was not robust, because new jobs in the sector have been created at declining productivity. The services sector in Viet Nam now appears to serve as a pool of self-employed and casual labour that has moved out of agriculture and cannot be absorbed in the formal sector. This pattern of employment creation may be in part due to industrial policies that protect capital-intensive sectors at the expense of labour-intensive industries. However, as Weeks et al pointed out, slow employment growth combined with rapid output growth is the expected pattern in a society in transition from central planning to market regulation. In the transition process, facing stronger competition in both domestic and international markets, state enterprises which have been dominating manufacturing and other industries, must adjust to the rules of profitability, by reducing employment, which has been excessive before, to achieve technical efficiency, then adjust techniques for economic efficiency (UNDP 2004a, p. 43).

In short, although overall declines in poverty resulted from both employment creation and productivity improvement, major contribution was due to productivity improvement in each sector and employment generation in agriculture, rural small-scale off-farm and services, but not as consequences of industrial growth and the employment shift from the low-productivity agriculture to high-productivity manufacturing.

2.2. Policies for Rapid, Sustainable and Pro-Poor Growth

The previous sub-section identified main determinants of, or channels leading to fast poverty reduction. This sub-section discusses how to use policy instruments under Government control to affect poverty reduction through the identified channels.

2.2.1. Monetary and Financial Policies

As discussed in Sub-Section 2.1.1, macroeconomic stability is key to achieving sustainable growth and poverty reduction, and Viet Nam has been performing quite well in this regard. As monetary and financial policies play an important role in ensuring macroeconomic stability, this sub-section will summarise assessments of these policies in Viet Nam in recent years as presented in the summarised studies. Special attention is given to how to make these policies conducive to sustainable poverty reduction.

Monetary and credit growth was rapid in the early 1990s, then was moderated in the mid-1990s till 1997 in response to relatively high inflation in this period. The decline in monetary expansion was associated with falls in inflation, although there was a spike in 1998 due to the Asian financial crisis, which led to a significant *dong* depreciation that affected domestic prices. Despite increased monetary expansion in 1999 and 2000, inflation remained low, turning negative in 2000. These statistics indicate that the correlation between increases in the monetary supply and inflation was loose, perhaps reflecting excess demand for money due to financial deepening (UNDP 2004a, p. 126).

Therefore, monetary policy in Viet Nam can be characterised as prudent in general. Further evidence in support of this conclusion can be found in programmed credit and broad money growth rates in recent years, which are broadly in line with the Government's agreement with the IMF. Credit growth to state-owned enterprises (SOEs) only marginally surpassed the set target of slightly more than half of the programmed growth of domestic credit of the economy, which is seen by multilateral institutions as the Government's commitment to SOE reforms (UNDP 2004a, p. 128).

Viet Nam has also taken some important steps to make the banking system more market-based, and thus more sustainable. In particular, it was decided that all banks, especially the state-owned commercial banks (SOCBs) - the source of most of the credit for the SOEs - would phase out targeted credits and focus on commercial lending. Targeted lending is currently carried out through two channels. The first is the Development Assistance Fund (DAF), which provides financing for domestic enterprises in infrastructure, public services, exports and heavy industry. The second is the Social Policy Bank, which has been converted from the state-owned Bank of the Poor, which will provide micro-financing to agricultural households and other mainly rural low-income groups that meet certain criteria.

DAF is a quite delicate issue and raises some concerns among the various commentators. These concerns are twofold: (i) the size of DAF is very large[7] while its operations are not market-based; (ii) credits from DAF are provided nearly exclusively to SOEs only and to some large infrastructure projects that do not appear to be efficient (Dapice 2003, pp. 6, 12). The existence of DAF appears to contradict a shift of the financial sector to commercial and market-based lending. However, according to Weeks et al, DAF can be justified on economic and social ground, and if its operations are carefully reviewed and properly re-organised, DAF could be a useful development instrument. In particular, it is noted that DAF would be more beneficial if the criteria for areas given preferential credit were clearly identified by the Government, as clear identification of priority areas would reduce the tendency to give preferential credit to state enterprises due to political connections or in order to prevent SOE bankruptcy (UNDP 2004a, p. 142).[8]

A conclusion that can be drawn from the different assessments of DAF is that if carefully used, DAF could serve as a useful instrument for the Government to achieve some of its development objectives. However, as this instrument is powerful (of very large size), while not market-based and consequently susceptible to abuse, its use should strictly follow clear rules and should be closely monitored.[9]

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7 The DAF is presumably the largest financial intermediary in Viet Nam for channelling domestic and foreign funds to investment activities.

8 Recently the Government has issued a decree that reduced considerably the list of entities and areas eligible for its preferential credit, as well as cut down the proportion of the preferential credit.

9 Sharp knife is useful, if used properly and carefully, and hurts, if otherwise. Policy instruments available to the Government are rarely perfect. Therefore, at the policy level, it is important for the Government to evaluate both costs and benefits of having the instrument

Another issue of concern is fiscal costs of restructuring-linked re-capitalisation of SOCBs. Weeks et al warn of the possibility that the re-capitalisation of SOCBs might slip out of control, as occurred in Indonesia. Then the budgetary implications could be severe: In Indonesia, the recurrent costs of re-capitalisation have crowded out both development expenditure and social programmes that affect the poor, as well as eliminated for the foreseeable future any new pro-poor budgetary programmes. Therefore, the level and rate of re-capitalisation should be thought through carefully (UNDP 2004a, p. 143).

2.2.2. Fiscal Policy

Fiscal policy receives special attention from the summarised studies, due to its special importance in achieving sustainable poverty reduction, as well as attaining other MDGs. Assessments of fiscal policy with special reference to sustainability and pro-poor orientation in these studies can be summarised as follows:

Fiscal position: although fiscal deficits have been on the rise (from 1.6% of GDP in 1998 to 5.1% in 2000, and a projected 6.5% in 2002), they are still considered as at acceptable levels (Dapice, 2003, p. 2). The deficits are generated mostly by growing public investments, as during the period 1998-2002, the Government generated a substantial current fiscal surplus (current revenues less current expenditures) of between 4 and 6% of GDP. Econometric analysis of Viet Nam data for the period 1985-2000 available from ADB's database does not find that the fiscal deficits generated inflation (UNDP 2004a, p. 54). In short, the fiscal position has been so far favourable in terms of not threatening macroeconomic stability.

There are, however, some concerns about fiscal instability: (i) oil revenues, vulnerable to price fluctuations, now constitute a higher proportion of total revenues than in past years; (ii) the costs of restructuring of the publicly-owned banking system may be high, and projections of Viet Nam's fiscal balances were critically affected by assumptions about these restructuring costs and therefore uncertain (UNDP 2004a, p. 97).[10] These costs, however, appear to be transitory and tend to decline over the medium to the long term, if SOE reforms are carried out properly and successfully; and (iii) Viet Nam has increasingly relied on foreign loans and assistance to amortise its fiscal deficit. Some commentators therefore recommend that the Government should be careful with foreign commercial borrowings, given unfavourable international experience (UNDP 2004a, p. 97), and should ensure the right pace of restructuring of the banking sector in order to keep the fiscal costs of re-capitalisation at manageable levels, thus making sufficient space for pursuing pro-poor budgetary development and social programmes (UNDP 2004a, p. 10).

Government taxation and revenue: government revenue to GDP in the early 1990s increased, reaching 24% GDP in 1994 and this is considered a major achievement of Viet Nam. It gradually declined to below 20% GDP, indicating a potential for revenue increases through improvements in tax administration. By drawing on results of some tax incidence analysis Weeks et al find that taxation in Viet Nam is generally progressive, with some exceptions: (i) taxation appears to be broadly progressive, except in the case of the second poorest quintile with respect to agricultural taxation; (ii) the incidence of fees and contributions appears to be regressive; (iii) the indirect tax burden in Viet Nam seems strikingly proportional, extracting 4% tax from rich and poor alike, and the incidence of indirect taxation when measured in terms of the taxable base is considerably lower on the highest incomes than that for poorer quintiles, indicating that there is scope to widen the tax base on the richer quintiles (UNDP 2004a, pp. 100-101). These indicate areas where improvements can be made to make taxation in Viet Nam even more progressive and pro-poor.

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in question, as compared to using alternatives for achieving the same objective. Once the instrument has passed such evaluation exercise, it is important to set up and strictly follow a set of rules to ensure that the instrument is used in the best way possible, i.e. with maximum benefits and minimum costs.

[10] These costs arise from the need to cover non-performing assets, and the policy decision to raise reserves to meet international guidelines. In 2002 these costs were projected to be as much as 2.2% of GDP, which would raise the fiscal deficit to 8.7% of GDP – the level that may seriously threaten macroeconomic stability.

Public expenditures: assessment of the pro-poor nature of public expenditures is generally favourable. The Government allocated considerable investment to economic sectors and to education. Given the large proportion of poor people deriving their incomes from the agricultural sector, and the importance of health and education, this structure of allocation appears to be progressive.[11] However, the effectiveness of the expenditures and their sustainability is in doubt unless the currently extremely low operating and maintenance allocations are raised to adequate levels. Expenditures on social subsidies are pro-poor to the extent that subsidies represent cash transfers to poorer provinces (UNDP 2004a, p. 103). [12]

While acknowledging the necessity and usefulness of targeted programmes in Viet Nam, particularly investment projects targeted to disadvantaged areas, where poverty is particularly severe, Weeks et al suggest that the Government would consider introduction of a universal pension for the elderly, as a bold move towards further strengthening social protection (UNDP 2004a, p. 113). Details of such suggestion are presented in Box 2.

Box 2. Universal Old-Age Pension: Benefits, Costs and Prospect

As shown above, except some warning signs which can be dealt with, the Vietnamese government enjoys a fiscal position that provides scope for it to expand existing poverty reduction programmes and to initiate new pro-poor programmes. Current poverty reduction programmes, such as the support to disadvantaged regions, incorporate the principle of universalism, rather than targeting a sub-set of households. There are several schemes which the Government might consider, and one of those is a **universal old-age pension**.

There are several advantages of universal programmes as complements to targeted ones.

First, and perhaps most important, they are *inclusionary* rather than *exclusionary*; that is, they do not require that the state divide the population between beneficiaries and non-beneficiaries. As a result, benefiting from the programme does not place the stigma of 'poverty' upon the recipient. *Second, if they are feasible to implement*, universal programmes carry much lower administrative requirements and costs, and involve much less state intrusion into the private life of citizens than exclusionary programmes. The administrative demands of targeted programmes can be high if a goal is eliminate 'leakages' to the non-poor. This differentiation is difficult even in developed countries. In Viet Nam, where the vast majority of the labour force works in small-scale urban and rural activities, direct income measures of poverty are almost impossible to make on a basis that is consistent across the country. *Third,* and specific to the Vietnamese context, a universal programme funded at the central government level would avoid the variation in support levels by districts, which characterises the present targeted programmes. *Finally*, there is the well-known 'borderline' problem that arises from the relatively continuous nature of income distributions. Societies are not, in practice divided between two clearly demarcated categories, 'the poor' and the 'non-poor'. Also, there is the 'pure' borderline problem: delivering a benefit to those below an arbitrary income line will make some households close to the line better off than the 'non-poor' just above the line, and this problem may be serious, if near poor households are many in number*.

The specific advantages of an old age pension are several. In most low-income countries it would not be possible to administer a pension. In Viet Nam the administrative system reaches down to the commune level for the vast majority of the population, where records are adequate to verify ages. Distribution of the pension could be implemented through existing institutions, with low administrative costs. Further, a universal pension could be gender-neutral, by being distributed to all who qualify, rather than through heads of households. In addition, since saving by the elderly is typically low, the expenditure effect of the pension would be close to one hundred percent, with multiplier effects in communities. Finally, and most obviously, a pension for the elderly would go far to eliminate one of the most pernicious and tragic forms of poverty: destitution among those who have exhausted their working years. So-called

[11] Evidence from Asia shows that the greatest impact on agricultural productivity and poverty comes from investment in roads, irrigation, village electrification, and from outlays on agricultural research and development and extension. Higher priority in public sector allocations should therefore be given to rural development (Pasha and Palanivel, UNDP 2004, p. 26; Pham Lan Huong et al, 2003, p. 40).

[12] Social subsidies include (i) financial support to social assistance centres; (ii) financial support to social assistance outside these centres (i.e. in communities); (iii) other social programs such as anti-drug and anti-prostitution; and (iv) poverty targeting programmes - HEPR, programme 135.

'linkages' to the non-poor, if they were to be judged as a drawback, would be outweighed by the social and economic benefits.

Given the significant potential benefits of universal old-age pension scheme, the question would then be how much it costs?

The basic calculation, which is presented in Table 1, assumes that the pension could be distributed through existing institutions, with no net administrative costs. The qualifying age for the pension is set at sixty-five for both men and women. To avoid bureaucracy, the pension would be paid with no requirement that recipients demonstrate they have 'retired'. The level of the pension derives from the ratio of the proposed pension to the 1998 VLSS poverty line and this is a policy choice.

The results (line "pension exp/GDP" in Table 1) show that this scheme would cost between 1.6% and 2.2% GDP, depending on the ratio of the proposed pension to the 1998 Viet Nam Living Standards Survey (VLSS) poverty line that is chosen.

Table 1. Estimated Annual Budgetary Cost of a Universal Pension, (in 1998, prices of 1993)

Item		Measure	Value			
Share of population 65 & over		percentage	4.9			
Private consumption		bn 1993 dong	194,841			
GDP		bn 1993 dong	274,811			
Private consumption/GDP		percentage	70.9			
Government expend/GDP:	social services	percentage	6.8			
	all current	percentage	14.7			
	total	percentage	21.9			
Consumption per capita (VLSS)		dong, thds	2,784			
International poverty line*		dong, thds	1,790			
Estimated pension cost						
Pension/poverty line		ratio	1.00	0.90	0.80	0.70
Poverty line/average consumption		ratio	.64	.64	.64	.64
Pension per person		dong, thds	1,790	1,611	1,432	1,253
Pension expenditure/GDP		percentage	2.2	2.0	1.8	1.6
[assuming 10% admin cost]		[percentage]	[2.4]	[2.2]	[2.0]	[1.8]
Increase in expend:	social services	percentage	33.0	29.7	26.4	23.1
	all current	percentage	15.3	13.8	12.2	10.7
	total	percentage	10.3	9.2	8.2	7.2

Notes and Sources

1. Private consumption & GDP: IMF 1999, p. 4 & 6, with the ratio of private consumption to GDP assumed to be unaffected by deflating; and 1993 used as base year instead of 1994.
2. Poverty line: that used in the VLSS 1998.
3. Government expenditure: from Chapter 4, Table IV.1 in Weeks et al (UNDP 2004a).
4. Population statistics: *World Development Indicators 2001*.
5. The last three rows assume no net administrative cost.

*Using the food poverty line would reduce the pension and cost calculations by 28% (that is, the food poverty line in 1998 was 0.719 of the international standard poverty line).

By any realistic estimate of administrative costs, a poverty line pension would be well within the government's fiscal constraint. The aging of the population would obviously increase the cost, but this is unlikely to result in a major fiscal outlay for two decades. In the meantime, the economy would expand, increasing public revenue would be more than enough to cover the relative increase in claimants. The main conclusion therefore is that such a scheme as a step towards universalisation and mainstreaming of social policies with strong pro-poor focus may be worth considering by the Government of Viet Nam for the designing of medium- and long-term socio-economic development plans.

Note: * These problems do not invalidate the basic concepts of the poor and the non-poor; rather, they indicate the practical complexity and arbitrary nature of targeting.

Source: Adapted from UNDP 2004a, pp. 109-112, 121.

Public investments: This issue is discussed at length in the studies that this paper summarises. While some of these studies provide different assessments on efficiency and the quality of past investments, they agree on the urgent need to mainstream sound economic, social and poverty impact considerations into project appraisal, particularly for large projects.

Using data from ADB's Asian Recovery Information Centre, Weeks et al found that Viet Nam's average ICOR over the period 1996-2001 is equal to 3.7 (with highest level of 4.8 in 1999 and second highest level of 4.5 in 2001), which in their opinion, compares quite favourably with other countries in the region (Indonesia, Laos PDR, Malaysia, the Philippines, Thailand etc.) during *the same* period (UNDP 2004a, p. 59). Dapice (UNDP 2003, p. 5) however found that ICOR in Viet Nam was only 3.2 in 1995-1997, but rose to 4.5 in 2002, leading to an assessment of low and falling efficiency of investments in recent years. These differences in assessment of efficiency of investments at the aggregate level are apparently due to differences in data used, and differences in the selection of reference countries with relevant time periods for comparison. This indicates the need to strengthen the methodology (e.g. more well-founded selection of reference countries with respective time periods for comparison, properly taking into account the time lag of effects of large public investment projects, addressing a possible endogeneity problem, i.e. the Government sharply increased public investments in bad years with worsening economic conditions in the hope to stimulate aggregate demand[13] etc.), and data collection in order to provide more consistent policy advice to the Government of Viet Nam.

However, the studies converge in their assessments of public investments at more disaggregated levels that there are apparent efficiency problems that need to be taken care of properly when designing future development plans. Substantially overstated costs of numerous infrastructure projects are widely reported in press. Building unneeded roads or ports and building them to too high a standard imposes substantial costs on the country. A discernible proportion of public investment went to commercially-oriented factories that need protection to be viable, such as sugar, steel, cement etc. (Dapice, 2003, pp. 6, 14). These projects are quite frequently justified on the basis of certain non-economic objectives. However, in addition to the well-known and widely recognised inefficiency in the sugar programme, Dapice - through the case of Dung Quat Oil Refinery - demonstrates that there may be a better set of instruments to achieve the same set of objectives (e.g. commercially built refineries in combination with taxation and public investments in roads, schools, irrigation, power and market in the targeted area may be a better alternative to achieve a dual objective of having a modern oil refinery *and* helping poor provinces) (Dapice, 2003, pp. 6-7). While the poverty impact of sugar mills' backward linkages to sugarcane growers is not captured in the analysis of the sugar programme, it is apparent that there may be better alternatives for achieving the same set of objectives.

Although the existing investments are irreversible, thus limiting the usefulness of such ex-post assessments, the lessons learnt may inform future development planning of the need not only to set the right objectives, but also to select the best instruments available to ensure that growth is rapid, sustainable and pro-poor. Along these lines, it is recommended that the Government carry out intensive assessment of the benefit incidence of capital spending for the so called "mega" projects, and systematic studies of the impact on poverty, given the size of the projects, making these studies essential to the country's poverty reduction strategy (UNDP 2004a, pp. 107, 113).

[13] Expansionary counter-cyclical fiscal policy is advocated by Pasha and Palanivel (UNDP 2004, p. 1).

Finally, there is a undesirable effect of public investments, as seeking public funds may lead to the diversion of provincial focus away from attracting private investors: “It is easy to focus on public investment when other investment is low and there are public funds, but this attitude is not likely to induce provincial officials to focus on attracting private investors so much as to lobby for more superfluous public investment. This tendency can be seen as a weakness now and a threat over time, as it will contribute to the tendency of different regions to have very different growth rates, economic opportunities, and job creation” (Dapice, 2003, p. 14). In other words, there often exist trade-offs, which the Government needs to evaluate carefully.

In short, given the crucial role of public investments in achieving fast, sustainable and pro-poor growth, large government-funded investments projects should be designed and appraised carefully on efficiency, equity and poverty grounds. Different alternatives for achieving the same set of objectives should be evaluated and the best one with the minimum cost should be selected.

2.2.3. Policies and Institutions to Develop the Private Sector for Rapid, Sustainable and Pro-Poor Growth

In a number of studies that this paper summarises, private sector development receives special attention due to its significant role in promoting employment growth, which is, as identified in Sub-Section 2.1.3, a key channel leading to poverty reduction.

It is widely recognised that the most dynamic sector in Viet Nam since 2000, when the Enterprise Law was passed, has been the private formal domestic sector. Fifty-four thousand new firms representing $4.7 billion in capital have been registered between the end of 1999 and the end of 2002, and domestic private investment is widely believed to be the largest potential source of future investments for Viet Nam.

Equally importantly, among the three major types of investment (public investment, foreign direct investment and domestic private investment), domestic private investment (DPI) appears to *directly* generate the highest returns in terms of new jobs, poverty reduction and reducing inequality, as it tends to be more widely spread throughout the country, covering a much wider variety of situations than foreign direct investment (FDI) and can grow faster than state spending (Dapice, 2003, p. 8).[14] This leads to a recommendation that for rapid and sustainable economic growth and fast poverty reduction, most provinces should focus less on attracting FDI, however desirable this form of investment may be for other reasons, and more on creating conditions that will be attractive to domestic investors (Dapice, UNDP 2003, p. 9).[15] It should be noted that here Dapice is discussing policy at the *provincial* level. At the national level, policies should, however, be designed to achieve the synergy and complementarities between the three types of investments (state, FDI and DPI) to achieve the set objectives. For example, public investment could enhance (crowd-in) employment-generating foreign and domestic private investment, while channelled to projects that are directly poverty-reducing (UNDP 2004a, p. 39).

Promoting private sector development also means understanding the factors that are constraining their growth and actions that is needed to remove such constraints. There are two broad groups of inter-related factors that affect private sector development: (i) internal factors (managerial and technical skills, capital, technology, knowledge about and access to markets) inherent to private businesses themselves; and (ii) government policies at all levels to create a supportive business environment (external factors) and to improve the internal factors. It is clear that *the right types* of public investments and FDI can change firm’s internal factors, through their technological and managerial spill-over effects. There are also non-investment policies that can facilitate private sector development for higher growth and faster poverty reduction.

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[14] It should be noted that Dapice refers to *direct* impact of investments in this case.

[15] In general, a right combination of state investment, DPI and FDI should be sought, given the specific context of a province. This may look like a carpenter who skilfully masters a combination of hammer, scissors and knife to get the most of the available set of instruments. Each of these instruments is more suitable for specific tasks, and therefore it is important for the carpenter to use the right instrument for the right task to achieve the set objectives (e.g. making a table) in the most efficient way.

In comparing seven northern provinces (Quang Ninh, Hai Duong, Hung Yen, Ha Tay, Bac Ninh, Bac Giang and Vinh Phuc) with four southern provinces with similar infrastructure conditions, access to markets and human capital (Dong Nai, Binh Duong, Long An, and Ba Ria - Vung Tau), Nguyen Dinh Cung et al (UNDP 2004c, p. 2) find that the southern provinces outperform their northern counterparts in terms of per capita export (USD 785 vs. USD 85), per capita FDI (USD 570 vs. USD 60) and job creation (41 vs. 7 jobs per 1,000 persons during 2000-2002 and 12 vs. 3 in 2003). Differences in job creation as shown by the last indicator deserve special consideration, as it is directly related to employment growth, which is a key channel leading to poverty reduction.

The main reason offered by Nguyen Dinh Cung et al for these differences is that firms in the northern provinces face significantly more and higher hurdles that firms need to jump over to enter the market and/or run their business, than their counterparts in the southern provinces. Importantly, within the northern provinces, the hurdles are higher for “real” private firms that are defined as those having no connections with the state, than state-linked firms.[16] As Nguyen Dinh Cung et al explain, this is rooted in differences in the attitude of local authorities: many officials in the northern provincial governments, not always the leaders, are more comfortable with state-linked firms and try to make sure they predominate. This is done at the cost of less dynamism and competitiveness (UNDP 2004c. p. 5), and small- and medium-scale enterprises (SMEs) apparently suffer disproportionately from such attitude. This shows up in lower FDI, fewer exports in labour-intensive industries, and less overall job creation.

One of the biggest hurdles that affect economic and employment performance is access to land. While land access is a common issue in the country, the much-inflated prices of land in the North in general and in these northern provinces in particular has substantially raised this hurdle, particularly on new firms and fast growing firms.[17]

The next hurdle, which is also well known, is access to capital. Although larger firms no longer faced the problem of working capital constraint, this problem is still severe for small firms. For the former firms, finding markets, getting (garment) quota, or acquiring the right kinds of technology appear to be more serious problems than finding someone to extend credit (UNDP 2004c, pp. 9-10). With regard to smaller firms, an empirical study[18] by Hansen et al (2004, p. 16) suggests that government credit assistance during start-up contributed significantly to the growth of Vietnamese SMEs in the late 1990s. However, the importance of this kind of support may be diminishing, as new firms do not seem to benefit from this form of support. In contrast, the importance of legal advice appears to be increasing. The last finding implies that legal advice is an area where public intervention is necessary. The first finding does not appear to provide an unambiguous answer, but instead indicates that the Government faces a choice as to whether or not it should provide credit support to SMEs during start-up. This can be done by weighing the benefits (higher growth of SMEs, and thus, higher employment growth) against the costs of subsidised credit, taking into account the sustainability of such assistance, given the budget constraint.

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[16] State-linked firms are meant by Nguyen Dinh Cung et al to include not only (powerful, presumably) SOEs, but also private firms that are set up with support from important organisations and people. As compared to the majority of companies, these firms often have easier access to loans, land, and other important inputs or contracts, thanks to connections. As Nguyen Dinh Cung et al pointed out, this nuance should be properly captured in policy analysis (UNDP 2004c, p. 5), particularly in the debate on the creation of the level playing field. Classification of firms into state-linked and the rest is clearly more useful than the conventional public/private dichotomy. As a corollary, SOEs reform should go hand in hand with public administration reform. Otherwise, a truly level playing field can never be created, because of the presence of state-linked powerful private firms. Big businesses in developed countries, though completely privately owned, are also state-linked to varying degrees, because of their enormous lobbying powers.

[17] The following estimates are provided: “The price of land in Bac Ninh province in the new residential zone, 30 km from Ha Noi on a good road, is as high as $2,000 per square meter, while even poor and rural Bac Giang has land prices of $300 near to the provincial centre, about one hour or over 60 km from central Ha Noi. These prices are high relative to Ho Chi Minh City. There, recent land prices in desirable District 7 (only 4 km from the city centre) are only about $500 per square meter while prices in adjacent Dong Nai for residential land are only about $10 per square meter. This land is less than 50 km from the centre of Ho Chi Minh City. Note that Ho Chi Minh City is larger than Ha Noi and incomes in Dong Nai are far higher than in Bac Giang. Yet land prices in Bac Giang are many times those in Dong Nai. Those in Ho Chi Minh City are less than in Bac Ninh. Why these huge disparities, even within Viet Nam?” (UNDP 2004c, p. 7).

[18] The study uses panel data of 2,576 SMEs surveyed in three cities (Ha Noi, Ho Chi Minh City and Hai Phong) and four provinces (Ha Tay, Long An, Quang Nam, Phu Tho) in 1991, 1997 and 2002.

Based on the above analysis, a number of measures are suggested to make the business environment more conducive to private sector development towards more export and employment growth.

First, it is important to change the attitude of local leaders towards being more supportive of competitive investments that do not require special support. Three types of provincial governance are currently observed in Viet Nam: the old-fashioned one of heavy intervention; a hands-off attitude; and a more pro-active and supportive approach. The third, which resembles to the Singaporean type of state governance, should be encouraged, and national leadership should reward provinces that develop competitive industries (UNDP 2004c, p. 16). However, to be consistent with the Singaporean type of governance, the incentive system should also be changed accordingly to ensure that remuneration and rewards to *individual* officials are in line with their efforts and performance. At the same time, efforts should be made to level the playing field between state-linked and real private firms. All of this should be done within the framework of on-going public administration reform, as emphasised in a recent MDG report. “However, as the private sector develops, Viet Nam will need to avoid the same grave mistakes made in a number of other developing countries where the interests of the State and private sectors, at both the institutional and individual levels, became so blurred that they ultimately corrupted and destabilized development. Public administration reforms that provide adequate salaries through performance-based remuneration, combined with the other aforementioned safeguards, would greatly help in minimizing this risk” (UNDP 2003, pp. vi-viii).

Second, to keep down land prices to realistic values, thus lowering the land hurdle to firm entry and expansion, the Government should allow farmers to keep some of the gains from land reclassification and allow a modest percent of total land to be used for non-farm purposes, even without a master plan. Increasing the number of industrial zones and making the terms of leasing more flexible would also help. Nguyen Dinh Cung et al also suggest that annual tax on land, in addition to the transfer tax, should also be introduced to reduce speculation (UNDP 2004c, pp. 7, 16).

Third, business associations play an increasingly important role in facilitating private sector development, as Viet Nam takes further steps towards a market economy and is further integrated into the world economic system. So far, majority of SMEs claim not to understand clearly about the ongoing internationalisation process, and the further liberalisation of the Vietnamese market therefore may pose increasingly tough challenges to these firms (Kokko, 2003). SMEs particularly need a business association, as most of them are incapable of conducting market studies, marketing, surveys of technology, training of certain types of labour due to their small scale. Currently, business associations are under-utilised and they appear to be government-owned and government-run. They are thus bureaucratic and do not provide the kinds of business services that private investors need. Therefore, it is suggested that efforts should focus on making them truly business-oriented. Business associations would then provide marketing and technical information, training and other support to their members. They would also communicate legitimate concerns to government officials (UNDP 2004c, pp. 13, 16). As such, business associations would provide enormous help to private firms, particularly SMEs in a low tariff and high competitive world today.

A final note is on the informal sector. Pasha and Palanivel (UNDP 2004) noted that this sector is important for poverty reduction, as it can play the role of a cushion for the poor in terms of at least providing some minimum livelihood, despite the problems that it poses in terms of tax evasion, illicit activities, adverse impact on the environment, etc. While regulation will need to be improved to avoid some of the evils, it is clear that the informal sector will also have to be supported through provision of better physical infrastructure and other government facilities (UNDP 2004b, p. 27). More in-depth studies with specific survey and research techniques appropriate for unregistered firms are needed to inform policy makers in Viet Nam.

2.2.4. Trade Policy and Poverty Reduction

Export growth is examined by Pasha and Palanivel (UNDP 2004b) as a potential source of poverty reduction in Asia. While there is generally a consensus about the indirect effect on poverty of expansion of exports through contributing to faster economic growth, there is less clarity on the direct impact of exports on poverty, once the overall rate of growth is controlled for. Much depends on where exports with high growth rate originate from, and whether such exports have strong forward and backward linkages with the sectors where the poor work. Based on evidence of the selected Asian countries, Pasha and Palanivel conclude that export growth does not appear to have a significant *direct* impact on poverty, and therefore, exports cannot be said to play a significant role in influencing the extent to which the process of growth is pro-poor or not (UNDP 2004, p. 18).

As mentioned in Sub-Section 2.1.2, evidence from the 1990s in Viet Nam indicates that a strong correlation exists between exports and overall growth and poverty reduction, and therefore there are strong reasons to believe that the poor have benefited from the country's impressive export performance. But outside of agriculture the direct impact seems to be much smaller. Kokko (2003) using the same SME survey dataset found that SMEs in Viet Nam, most of which work in off-farm sector and employ the poor were not much exposed to exporting activities. The surveyed SMEs just produced 3% of their products for exports in 1996, and the figure dropped to 1% in 2002. He suggests that product quality, complexity and standardisation may create problems that prohibit these enterprises from participating in international trade.

Another important contribution of exports to overall growth and poverty reduction is through the so-called "export-led" stabilisation and export-led growth in Viet Nam in the 1990s, as interestingly noted by Weeks et al. In particular, inspection of the Viet Nam economic data shows that growth during 1995-2000 was strongly export-led, in the sense that two thirds of growth in final demand arose from export, with aggregate investment generating additional 21%, and government current expenditure 11% (UNDP 2004a, p. 38). However, it is also noted that it would be very difficult to sustain the high export growth rate over the medium and long term, as export share in GDP is already very high by international experience.

The above discussion suggests that the poverty-reducing impact of export growth appears to have been declining and may continue in the future in the absence of appropriate complementary policies. This trend should be properly captured in future projections on economic growth and poverty reduction, and other instruments rather than those which promote exports should be sought to raise the poverty impact of economic growth. According to Weeks et al, public investment could be expanded to replace the lost impetus from export growth in a public investment-led growth strategy, referring explicitly to the type of public investment that enhance (crowd-in) employment-generating direct foreign and domestic private investments, while channelled to projects that are directly poverty-reducing (UNDP 2004a, p. 39). Dapice (UNDP 2003, pp. 8-10) however focuses more on private investment. He thinks the scope for higher public investment is limited. On the contrary, private investment has advantages of being more easily attracted, spread more equally over every region, covering a much wider variety of situations and hence being more equitable. It is clear that both types of investment are needed, if efficient and complementary, though the ways to mobilise them may differ from one another.

In light of Viet Nam's forthcoming World Trade Organisation (WTO) accession, studies on poverty and the social impact of trade liberalisation should be a top research priority in order to enable Viet Nam to set up appropriate institutions and have in place appropriate complementary policies that allow Viet Nam to maximise benefits while minimising costs associated with the intensified integration process. Studies on the poverty impact of trade policy in Viet Nam have been done on the basis of the 1998 VLSS, which indicate that substantial poverty reduction has been achieved. This dataset is, however, outdated. More importantly, as Weeks et al point out, most studies assign an unwarranted importance to tariffs, which are important but far from a perfect measure of the degree of openness and trade liberalisation (UNDP 2004a, p. 165). Behind-the-border issues such as competition in the domestic markets, the spatial integration of the national goods market, sectoral and geographic mobility of labour and other aspects of the labour market, institutions and social safety nets to deal with risk and vulnerability etc. have been becoming increasingly important for understanding the trade-poverty linkage in Viet Nam in the years to come.

While the donor community can clearly play an important role by providing technical assistance in the form of funding and technical advice on methodologies and international experience, these studies should be, however, owned by the Vietnamese, as put forcefully by Weeks et al "It is highly probable that donors and lenders would provide financial support for such studies. It is quite important that these studies be owned by the Government in design, execution and choice of researchers, so that advocacy does not take the guise of 'objective' analysis" (UNDP 2004a, p. 166).

3. TOWARDS ACHIEVING MILLENNIUM DEVELOPMENT GOALS: THE GAPS AND THE POLICIES

3.1. Mind the Gaps

It is widely acknowledged that Viet Nam has been successful in advancing towards the achievement of many of the MDGs. However, there still exist gaps in a number of areas where Viet Nam thus needs to exert greater efforts to be firm on the schedule towards meeting the 2010 and 2015 deadlines. The gaps, and the policies and institutions needed to close them are the topic of the UNDP Viet Nam 2003 MDG Report. This is also the main content of this section, which will first continue the discussion of a few burning issues related to income/expenditure based poverty, and then move on to discuss non-income MDG indicators.

First and foremost, despite good performance in poverty reduction at the national level, food poverty and hunger among the poorest of the poor, mainly ethnic minorities, appears to have worsened in most regions of the country over the past four years. In particular, in the Central Highlands, virtually no progress appears to have been made over the past ten years in reducing food poverty, pointing to some serious shortfalls and gaps in the inclusiveness of the country's development process (UNDP 2003, p. iv). Many households might still be vulnerable to falling back into poverty for different reasons. As an indication, if the poverty line were to increase by 10% (or around VND 200,000 per year, or a bit more than one dollar per month per person) overall poverty rates would be brought up to 35.6%, a nearly 25% rise (UNDP 2003, p. 4).

There is growing evidence that a group of provinces appears to be left behind in the development process. A composite index of MDG indicators highlights the continued plight of the worst-off quintile of provinces including Bac Lieu, Lao Cai, Dak Lak, Ninh Thuan, Binh Phuoc, Tra Vinh, Kon Tum, Ha Giang, Gia Lai, Soc Trang, Cao Bang, Son La and Lai Chau. Wide disparities and gaps in human well-being also persist in other areas like child nutrition, maternal health, and access to clean water, despite significant progress in most of these indicators at the national level (UNDP 2003, p. iv). These development gaps cause a serious concern about Viet Nam becoming a two-speed country (UNDP 2002, p. 46), which is clearly unacceptable to the country strongly committed to a socialist orientation while shifting towards a market economy.

At the national level, there is some evidence that Viet Nam is lagging behind schedule on some MDG indicators. Specifically, recent data indicate that the maternal mortality rate is 65% higher than earlier thought and thus meeting the MDG goal on reducing maternal mortality rates, while still achievable, will now require much greater effort. However, the related VDG targets to 2005 and 2010 may no longer be realistic and may need to be revised, if recent data are confirmed (UNDP 2003, p. v).

Slow progress is observed in closing the gender gap in some important areas. The Law on Family and Marriage (2000) stipulates that Land User Certificates (LUCs) for common land must list the names of both husband and wife, and the financial cost of reissuing a certificate is modest at about VND 20,000-30,000. However, three years after the law was passed, GSO reports that only 2.3% of such LUCs carry both the husband and wife's names (UNDP 2003, p.5).

The quality of development causes some serious concerns. It is widely acknowledged that in a number of areas, quantitative achievements mask qualitative weaknesses. In education, the high enrolment rates at the primary school level hide a serious problem of low and variable quality of this crucial type of basic social services. Forest cover continues to expand, but the underlying quality of the new forest appears to be on the decline because of the introduction of non-native floral species and the associated loss of biodiversity (UNDP 2003, p. 5). This continues to threaten environment sustainability. Thus, concerns about sustainability - environmental, economic and financial (which is caused, as discussed in previous sections, by deteriorating quality of investments and growth), and social (caused by growing disparities in human well-being across locations and social groups) - calls for timely and bold measures and interventions by the Government of Viet Nam.

3.2. Close the Gaps: Implications for Policy and Institutional Changes

The UN Country Team Viet Nam 2003 MDG Report provides a set of recommendations on public interventions in the form of policy and institutional changes, which can be summarised as follows:

To ensure inclusive development, massive investment in human resource development will be needed (UNDP 2003, p. ix). Special attention should be given to providing basic social services. In particular, as migration is an important mechanism that allows people in poorer and peripheral provinces to engage more adequately in the growth process, this tendency should be properly taken into account in medium- and long-term socio-economic development plans. Provinces that experience substantial inflows of migrants should be allowed to retain a larger share of taxes collected in their respective provinces for providing adequate housing and basic social services, including basic health and education for migrant children. Similarly, allowing private companies tax breaks or other incentives for building quality migrant housing, and contributing to improved social services for migrant families would further help. Migrant workers building houses should be awarded residential certificates and their children should be allowed to join the public education system even before such certificates are issued. There will also be a growing need for the effective planning of secondary cities to accommodate rapid urbanization and pressures on the environment (UNDP 2003, p. vii).

To help the poorest of the poor in general and to deal with the disturbing trend with regards to food poverty in particular, in addition to broad-based socio-economic development policies, the Government of Viet Nam is allocating resources to poverty reduction through a series of targeted mechanisms. However, there is scope for improving the targeted programmes in order to generate the greatest impact, given the allocated budget. In particular, it is crucial to ensure more active involvement of the beneficiaries in the entire cycle of project implementation; meaningful control over the finances and contracting; training and capacity building; technical support and regular monitoring; inculcation of democracy, local accountability and transparency in decision making, helped by qualified social facilitation staff and concerned technical staff; as well as incentives for participation and contribution. Selection of beneficiaries should also be done in a more participatory and transparent way. Besides, side effects in terms of distortions in the loan market associated with subsidised credit need to be taken into account (UNDP 2003, pp. 5-7).

To improve the quality of education, it is important to raise teachers’ morale and motivation through a supportive environment that provides them with opportunities for professional growth, remuneration commensurate with their experience and qualification, and training.

To ensure economic and financial sustainability, it is important to implement changes in policies and institutions as suggested in Section 2, which aim not only to raise the overall investment in quantitative terms, but more importantly, to improve investment quality in terms of efficiency and equity in both the public and private sectors.

To ensure environmental sustainability, in addition to increased public investments to restore forest coverage, sustainable forest management in Viet Nam will require speeding up forest land re-allocation (both forested and open lands) to households and collectives, creating the adequate policy framework for the attraction of private investment into midland forest, and providing support to forest farms to undertake the effective utilization of lands and forests that have been re-allocated so far. To ensure safe water quality, more emphasis is needed on eliminating pollution sources (both domestic and industrial). Additional efforts will be required in the promulgation of regulation and criteria to ensure clean air in the cities and industrial areas, promotion of clean production, improving the efficiencies of energy utilization, and strengthening the capacity and equipping additional facilities for air monitoring system (UNDP 2003, pp. 49-50).

There are also other types of public interventions that are needed to close gaps in other areas determining MDG achievements. While some interventions can be done through increased Government spending, others - through improved business environment, most of interventions would be the most effective if synergy of efficient public investments and creation of an enabling environment is achieved. Importantly, good policy design can only be achieved if it is effectively implemented in practice. In this context, public administration reform plays a crucial role. The reform would help improve public services, through raising the capacity of authorities at the central and local levels. It should also aim at fighting corruption on the one hand, and improving the incentive system through performance-related remuneration for civil servants, on the other hand (UNDP 2003, pp. 7-8).

CONCLUSION

Viet Nam has made impressive achievements in socio-economic development since the country launched economic reforms Doi Moi in 1986. Economic growth can be characterised as having been rapid and pro-poor, sustaining over a period of more than 10 years. Viet Nam has thus taken important steps towards achieving VDGs by 2010 and MDGs by 2015. However, Viet Nam should avoid complacency about the past successes. Recent developments indicate some disturbing trends in the Vietnamese economy which should be taken into account properly in formulating medium- and long-term socio-economic plans and making economic projections: economic growth has slowed down; the quality of growth appears to have been deteriorating, thus threatening economic and financial sustainability; some regions and ethnic groups lag behind in the development process; and Viet Nam appears to be behind schedule on some MDG indicators. While there are good reasons to be optimistic about Viet Nam's future development, timely measures should be taken to reverse these disturbing trends, if Viet Nam is to achieve its long-term development objectives. More importantly, there is always scope for improvements in order to enable the country to get closer to its great potential. Therefore appropriate policies and institutions should be put in place so that to unleash all of the country's resources, talents and creativity for maximising the welfare of Vietnamese people.

The studies that this paper has summarised have identified some major measures to sustain rapid and pro-poor growth. First, improving the quality of growth by making investments more efficient and equitable is becoming increasingly important in the current context. This can be done in the first instance by selecting the types of public investments that enhance (crowd in) domestic private and foreign direct investments to maximise employment growth, thus, generating the largest poverty reducing effects of investment. Second, measures towards the making of a more business-friendly environment would help to more fully mobilise the largely untapped resources from private sector, thus generating many more new jobs, even in underdeveloped areas. Third, public expenditures should be increased on basic social services to make development more inclusive of the poor. Besides, Viet Nam may consider and pilot some innovative schemes of social protection towards universalisation and mainstreaming of the Government's poverty reduction programmes, as the country makes a further move to a more developed market economy. An example of this is a universal pension fund. Fourth, despite good macroeconomic performance in recent years, which allows to pursue pro-active pro-poor public policies, the Government should keep an eye on some key macro indicators in light of the re-emergence of inflation in 2004 and volatility in current international economy and politics. Last but not least, rapid sustainable and pro-poor growth and inclusive development would not be possible without modern governance which is based on principles of transparency, accountability, participation and empowerment and effectively fights against corruption while providing appropriate incentives and remuneration to those civil servants who perform duties well and honestly.

Reviewing the summarised studies also helps identify knowledge and data gaps that should be overcome if the Government is to adopt evidence-based policy making as a part of modern governance. Specifically, promising areas for further research with a view to closing some of the key knowledge gaps may include: (i) interactions of public investments with private domestic and foreign investments in generating rapid, sustainable and pro-poor growth with a view to providing operational guidance for practitioners; (ii) policy space for enhancing competitiveness-based employment growth in the context of international integration, notably the forthcoming WTO accession. Special attention should be given to some critical issues such as spatial integration of the national goods markets, sectoral and geographic mobility of labour and other aspects of the labour market, development of SMEs and the informal sector; (iii) social and poverty impacts of Viet Nam's WTO accession and social protection system for pro-poor growth and inclusive development at present and in the future; and (iv) mechanisms to deal with financial, trade, commodity and currency risks for sustainable and pro-poor growth. Data availability for analysis of this relatively small set of issues is very limited, and even none in a number of cases. Data gaps in monitoring MDGs are also enormous. There is a particularly urgent need for better data on HIV/AIDS, infant mortality rates, maternal mortality rates, access to safe water, and migrant poverty among others, ideally gender disaggregated.

In conclusion, the challenges ahead are huge. But if the right policies and institutions are effectively put in place, the drive and dynamism of the Vietnamese people will with no doubt guarantee the country's much brighter future.

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