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Institute of tropics and subtropics



**Process of Poverty Reduction in Vietnam
Bachelor Thesis**

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Prohlášení

Prohlašuji, že jsem bakalářskou práci na téma „*Proces of Poverty Reduction in Vietnam*“ vypracoval samostatně a použil jen pramenů, které cituji a uvádím v použité literatuře.

V Praze, dne:

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Poděkování

Na tomto místě bych rád poděkoval doc.Ing.Srnec Karel.**Ph.D.**, z České Zemědělské Univerzity v Praze, Katedra inženýrství, ekonomiky, a rozvoje venkova tropů a subtropů, za odborné a trpělivé vedení při zpracování této práce.

ACRONYMS AND ABBREVIATIONS

| | |
|---------------|--|
| CAF | Centre for Analysis and Forecasting |
| CEM | Committee for Ethnic Minorities |
| CIEM | Central Institute for Economic Management |
| DFID | Department for International Development |
| FAO | Food and Agriculture Organization |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| GSO | General Statistics Office |
| HEPR | Hunger Eradication and Poverty Reduction |
| HCMC | Ho Chi Minh City |
| ILSSA | Institute for Labour Studies and Social Affairs |
| IMF | International Monetary Fund |
| ISPARD | Institute for Strategy and Policies on Agricultural and Rural Development |
| MARD | Ministry of Agriculture and Rural Development |
| MDG | Millennium Development Goal |
| MOLISA | Ministry of Labor, Invalids and Social Affairs |
| MPI | Ministry of Planning and Investment |
| ODA | Official Development Assistance |
| PPA | Participatory Poverty Assessment |
| SBV | State Bank of Vietnam |
| SEDP | Socio-Economic Development Plan |
| SOE | State-Owned Enterprises |
| SRV | Socialist Republic of Vietnam |
| UNDP | United Nations Development Program |
| VASS | Vietnamese Academy of Social Sciences |
| VDG | Vietnam Development Goal |
| VHLSS | Vietnam Household Living Standards Survey |
| VIE | Vietnam Institute of Economics |
| VLSS | Vietnam Living Standards Survey |
| WTO | World Trade Organization |

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I. INTRODUCTION

Implementation of the Comprehensive Poverty Reduction (CPR) is now regarded as an important task of the Government of Vietnam. Under the guidance of the Steering Committee on CPR, the Inter-Ministerial Working Group has coordinated with the concerned ministries and agencies to take many actions in order to concretise activities for implementing the Strategy. Objectives and targets of the Strategy have been step by step integrated into the socio-economic development plans of the country, ministries, agencies and provinces, and are now being further proceeded with.

The CPR implementation process has been closely linked with the implementation of extensive economic reforms in each sector and area in order to increase the efficiency in resources utilization, enhance the competitive ability and accelerate the process of international economic integration. Many new policies and mechanism have been issued, forming an appropriate legal framework to promote the economic growth. Along with the process of economic reform, the Government has taken many measures for social development. More resources for health care and education, as well as social and poverty reduction programs have been mobilized, and the efficiency of the social safety net system has been further strengthened and improved to ensure that everybody are equal in benefiting from the growth.

Vietnam has made significant achievements, e.g. high and stable economic growth rate which has always moved along the increasing trend over the years (7.1% in 2002, 7.3% in 2003 and estimated 7.6% in 2004). The economic structure has positively changed to link with the domestic and international markets. The export turnover has been strongly increased in the recent years (20.8% increase in 2003, and estimated increase of more than 24% in 2004). Budget revenues have exceeded the targeted plan and budget deficit is still under control.

Along with the policy of economic development promotion in 2003. 2004, the social field has also been paid attention to, investment sources for the social fields have been increased, and support investments targeting to poor communes, poor areas and areas of ethnic minorities have been continuously increased and account for a major share in the

total targeted support investment of the Government. At the same time, many mechanisms and policies have been issued and implemented, such as policies on job creation, support to redundant workers, support on housing, productive land and clean water for poor people and other social policies. As a result, new jobs have been created; particularly in 2004, 1.55 million of jobs have been created, reducing the unemployment rate to 5.6% and 1.1% in the urban and rural areas, respectively. The number of poor households according to the national and international standards has been reduced by more than 2% on the average. Particularly, in 2004 this number has been decreased to 8.3%. Substantial progress has been seen in the fields of health care, education, environment and resources, population, families and children, social welfare, etc. The issue of socio-economic development in isolated, remote and ethnic areas has also been paid attention to. The material and spiritual living conditions of the ethnic minorities have been significantly improved.

In the social field, apart from the achieved results, there are still a lot of implicit challenges and difficulties, such as high unemployment rate in the urban areas; high number of unemployed workers in the rural and agricultural areas; low quality of education; deficient health care services for people; high number of people contracting HIV/AIDS, increasing trend of imbalances between poor and rich people, and between different regions in accessing to and utilization of health care services; insufficiently effective social welfare system to support disadvantaged people; increasing social evils; slow socialization process of social fields; failure of administrative reforms to satisfy requirements of the Doi Moi program; living standards of the people are still difficult.

1. Aims of the thesis

The aims of this thesis are to:

Discuss and test methods for compiling a comprehensive Process of Poverty Reduction in Vietnam.

Objectives and targets of the Strategy have been step by step integrated into the socio-economic development plans of the country, ministries, agencies and provinces, and are now being further proceeded with. Questions raised include: How fast has been the Vietnamese Government Reduce Poverty? What has lead to improvements in Poverty Reduction ?

More resources for health care and education, as well as social and poverty reduction programs have been mobilized, and the efficiency of the social safety net system has been further strengthened and improved to ensure that everybody are equal in benefiting from the growth.

2. Methodologies

Research methodologies of Introduction of Thesis can from Socialist Republic of Vietnam (2004) and Socio-Economic Development Plan. Systems analysis can from a general point of view be described as a way of viewing complex systems with its starting point in systems and models concepts (Ministry of Labor, Invalids and Social Affairs, 2005).

According to a definition used Food and Agriculture Organization (2005) the purpose of systems analysis is to contribute to good decisions by identifying and investigating paths of action, and to compare them considering their consequences. However, it is not enough research methodologies, that it is shown all above, but we still use information from varieties of literature sources (see page 73).

II. Background

1. Characteristic of Vietnam

1.1. Main Information

1.1.1. Geography

Location: Vietnam is located in Southeast Asia, bordered by the Gulf of Tonkin and the South China Sea to the east, China to the north, Laos and Cambodia to the west, and the Gulf of Thailand to the south.

Size: Vietnam is long and thin, with an area of 330,363 square kilometers.

Land Boundaries: Vietnam shares land boundaries with Cambodia (1,228 kilometers), China (1,281 kilometers), and Laos (2,130 kilometers) (www.photius.com).

Disputed Territory: On December 30, 1999, China and Vietnam signed a treaty that settled disputes over the two nations' common border. However, the Paracel and Spratly Islands in the South China Sea are still regarded as disputed territory. Malaysia, Brunei, the Philippines, and Taiwan also claim sovereignty over the Spratly Islands, which are believed to be rich in oil and natural gas reserves.

In May 2004, the government authorized 50 tourists and 40 officials to visit the Spratly slands by boat. The other nations staking a claim to the islands protested what they interpreted as an ssertion of sovereignty by Vietnam. In October 2004, Vietnam invited bids for oil exploration in the Spratlys, triggering a complaint from China's Ministry of Foreign Affairs. In November 2004, China retaliated by moving an oil-drilling platform into position to explore for oil in the Paracels (www.stratfor.com).

Length of Coastline: Vietnam's coastline along the Gulf of Tonkin, the South China Sea, and the Gulf of Thailand measures 3,444 kilometers.

Maritime Claims: In June 2004, Vietnam's National Assembly ratified an agreement originally reached with China in December 2000 that established an internationally valid maritime border in the Gulf of Tonkin. The ratification delay was attributable to concerns that the government had made too many concessions during negotiations. In addition, in April 2004 China and Vietnam agreed to a common fishing zone in the Gulf of Tonkin. Vietnam claims an exclusive economic zone (EEZ) of 200 nautical miles, the approximate beginning of the continental shelf (www.fao.org (2005)).

Topography: Vietnam is a country of tropical lowlands, hills, and densely forested highlands, with level land covering no more than 20 percent of the area. The country is divided into the highlands and the Red River Delta in the north, and the Gai Truong Son (Central mountains, or the Chaîne Annamitique, sometimes referred to simply as the Chaîne), the coastal lowlands, and the Mekong River Delta in the south. The highest point in Vietnam is Fan Si Pan, at 3,143 meters above sea level, in the northwest (www.haivenu-vietnam.com).

Principal Rivers: A relatively dense network of rivers traverses Vietnam. The principal rivers are as follows: in the north, the Red and Thai Binh; in the center, the Ca, Ma, Han, Thach Han, and Thu Bon; and in the south, the Mekong and Dong Nai.

Climate: Vietnam's climate is tropical and monsoonal; humidity averages 84 percent throughout the year. Annual rainfall ranges from 1,200 to 3,000 millimeters, and annual temperatures vary between 5°C and 37°C.

Natural Resources: Vietnam's main natural resources consist of coal, copper, crude oil, gold, iron, manganese, silver, and zinc.

Land Use: In 2003 Vietnam's land use was distributed as follows: 21 percent, arable; 28 percent, forest and woodland; and 51 percent, other.

Environmental Factors: The National Environmental Agency, a branch of the Ministry of Science, Technology, and Environment, is responsible for environmental protection. At the provincial level, the Departments of Science, Technology, and the Environment bear responsibility. Non-governmental organizations, particularly the

Institute of Ecological Economics, also play a role. Urbanization, industrialization, and intensive farming are having a negative impact on Vietnam's environment. These factors have led to air pollution, water pollution, and noise pollution, particularly in urban and industrial centers like Ho Chi Minh City and Hanoi. The most serious problem is waste treatment. Land use pressures have led to significant environmental problems, including severe deforestation, soil erosion, sedimentation of rivers, flooding in the deltas, declining fish yields, and pollution of the coastal and marine environment. The use of Agent Orange by the U.S. military in the Second Indochina War (1954–75) has had a lingering effect on Vietnam in the form of persistent environmental contamination that has increased the incidence of various diseases and birth defects (www.nationsencyclopedia.com).

Time Zone: Seven hours ahead of Greenwich Mean Time.

1.1.2. Administration of Vietnam

Vietnam is divided into 59 provinces (known in Vietnamese as *tỉnh*). There are also 5 centrally-controlled municipalities (*thành phố*) existing at the same level as provinces.

The provinces are divided into districts (*huyện*), and towns (*thị xã*), which are subdivided into towns (*thị trấn*) or communes (*xã*).

The centrally-controlled municipalities are divided into rural districts (*huyện*) and urban districts (*quận*), which are subdivided into wards (*phường*) (www.wikipedia.org).

1. Municipalities (*thành phố*) :

- Can Tho
- Da Nang
- Ha Noi
- Hai Phong
- Ho Chi Minh City

Picture 1: Vietnam map



Source: <http://www.theinterpretersfriend.com/indj/maps/vietnam-map.gif>

2. provinces (*tỉnh*):

An Giang, Bac Giang, Bac Kan, Bac Lieu, Bac Ninh, Ba Ria-Vung Tau, Ben Tre, Binh Dinh, Binh Duong, Binh Phuoc, Binh Thuan, Ca Mau, Cao Bang, Dac Lak, Dac Nong, Dien Bien, Dong Nai, Dong Thap, Gia Lai, Ha Giang, Hai Duong, Ha Nam, Ha Tay, Ha Tinh, Hau Giang, Hoa Binh, Hung Yen, Khanh Hoa, Kien Giang, Kon Tum, Lai Chau, Lam Dong, Lang Son, Lao Cai, Long An, Nam Dinh, Nghe An, Ninh Binh, Ninh Thuan, Phu Tho, Phu Yen, Quang Binh, Quang Nam, Quang Ngai, Quang Ninh, Quang Tri, Soc Trang, Son La, Tay Ninh, Thai Binh, Thai Nguyen, Thanh Hoa, Thua Thien-Hue, Tien Giang, Tra Vinh, Tuyen Quang, Vinh Long, Vinh Phuc, and Yen Bai.

Formal Name: Socialist Republic of Vietnam (Cong Hoa Xa Hoi Chu Nghia Viet Nam).

Short Form: Vietnam.

Term for Citizen(s): Vietnamese.

Capital: Hanoi.

Major Cities: With 5.6 million people, Ho Chi Minh City (formerly Saigon) is the most populous city. Hanoi has a population of 3 million. Other major cities are Danang, Haiphong, and Can Tho.

Independence: Vietnam declared independence from Japan and France on September 2, 1945. However, Vietnam remained under French control until the communist Viet Minh defeated French forces at Dien Bien Phu in 1954.

Public Holidays: Official holidays are New Year's (January 1), Tet or Lunar New Year (movable date in January or February), Liberation Day to commemorate the fall of Saigon (April 30), Labor Day (May 1), and Independence Day to commemorate Japan's withdrawal following its defeat in World War II (September 2) (www.wikipedia.org).

Flag: Red, with a large yellow five-pointed star in the center.

Pic. 2: Vietnam flag

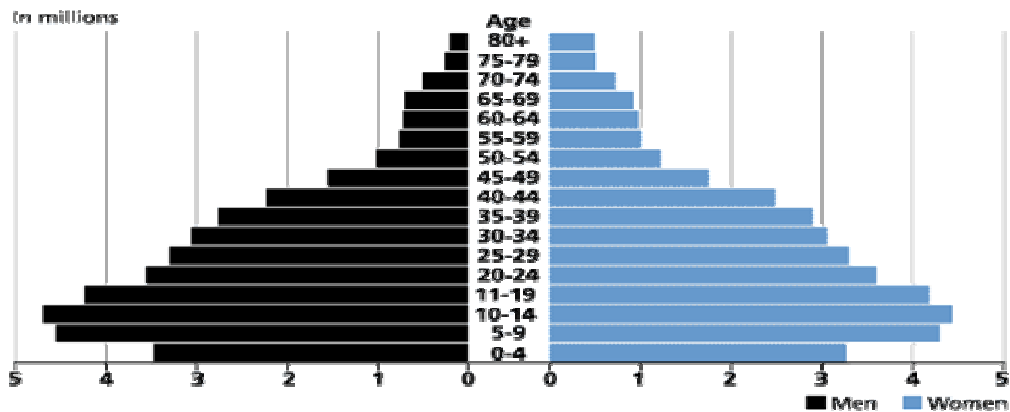


Source: http://www.stalvik.com/images/Flaggor/flag_vietnam.jpg

1.2. SOCIETY

Population: In 2004 Vietnam's population was 82.2 million, and it was growing at a rate of about 1.2 percent per year. The average population density was 246 people per square kilometer, one of the highest levels in the world. The highest concentration of people was in the Red River Delta, in the northeast where Hanoi is located, and the lowest concentration was in the northwest. The population, which traditionally has been primarily rural, has become increasingly urbanized since 1986, when the Doi Moi economic renewal program began to boost income and employment opportunities in the cities. In 2004 about 26 percent of Vietnam's population was urban and 75 percent rural, down from 85 percent in the early 1980s. Vietnam's net migration rate was estimated at -0.45 migrant(s) per 1,000 population in 2004. Consistent with the trend toward urbanization, urban areas, such as Ho Chi Minh City, Hanoi, Da Nang, and the Central Highlands, have attracted the most migrants. In addition, a steady stream of migrants continues to move from the North to the South. As of 2002, the two largest groups of refugees were Vietnamese and ethnic Chinese returning to Vietnam from Cambodia and the Montagnards from Vietnam's Central Highlands seeking asylum in Cambodia (Ministry of Health, 2004).

Fig. 1: Population by Age and Sex, Vietnam 2000



Source: Ministry of Health, Health Statistical Yearbook 2000.

Demography: In 2004 Vietnam’s age distribution was estimated as follows: 0 to 14 years of age, 29.4 percent; 15 to 64, 65 percent; and 65 and older, 5.6 percent. This age distribution signals slower population growth than in the past. According to 2005 estimates, Vietnam’s birthrate was 17.07 births per 1,000 people, and the fertility rate was 1.94 children born per woman. The infant mortality rate was 25.95 per 1,000 live births, and the death rate was 6.2 per 1,000. Also according to 2005 estimates, life expectancy was 70.61 years for the total population, consisting of 67.82 years for men and 73.6 years for women (www.country-data.com).

Ethnic Groups: Vietnamese are the predominant ethnic group, constituting 85 to 90 percent of the population. Chinese account for 3 percent of the population. Other ethnic groups are the Hmong, Thai, Khmer, Cham, and Montagnards, an indigenous group living in the Central Highlands.

Languages: Vietnamese is the official language of Vietnam. The Vietnamese have adopted a Romanized script introduced by the French during the colonial period. English is increasingly accepted as a second language. Some French language influence persists. Other languages used are Chinese, Khmer, and mountain area dialects (www.wikipedia.org).

Religion: With 7.6 million followers, Buddhism is the most popular religion. The second most popular religion is Roman Catholicism, with 6 million adherents. Other faiths,

with the number of followers indicated, are Cao Dai (2 million), Hoa Hao (1 million), Protestantism (500,000), and Islam (50,000).

Education and Literacy: In 2003 Vietnam's literacy rate was 94 percent, including 95.8 percent for men and 92.3 percent for women. However, educational attainment is less impressive. Although five years of primary school education are considered compulsory and 92 percent of eligible children were enrolled in primary school in 2000, only two-thirds completed the fifth grade. The cost of tuition, books, and uniforms and the need to supplement family income are the two main reasons for dropping out. A huge disparity exists in primary school enrollment between the cities and rural parts of Vietnam. In some rural areas, only 10 to 15 percent of the children progress beyond third grade, whereas almost 96 percent of pupils in Ho Chi Minh City complete fifth grade. In 2000 enrollment in secondary school was only 62.5 percent, much lower than in primary school. One of the government's goals is to expand access to secondary education (MOLISA, in 2005).

Health: The overall quality of healthcare is regarded as good, as reflected by 2005 estimates of life expectancy (70.61 years) and infant mortality (25.95 per 1,000 live births). However, malnutrition is still common in the provinces, and the life expectancy and infant mortality rates are stagnating. In 2001 government spending on health care corresponded to just 0.9 percent of gross domestic product (GDP). Government subsidies covered only about 20 percent of health care expenses, with the remaining 80 percent coming out of individuals' own pockets.

In 1954 the government in the North established a public health system that reached down to the hamlet level. After reunification in 1976, this system was extended to the South. Beginning in the late 1980s, the quality of health care began to decline as a result of budgetary constraints, a shift of responsibility to the provinces, and the introduction of charges. Inadequate funding has led to delays in planned upgrades to water supply and sewerage systems. As a result, almost half the population has no access to clean water, a deficiency that promotes such infectious diseases as malaria, dengue fever, typhoid, and cholera. Inadequate funding also has contributed to a shortage of nurses, midwives, and

hospital beds. In 2000 Vietnam had only 250,000 hospital beds, or 14.8 beds per 10,000 people, a very low ratio among Asian nations, according to the World Bank.

Vietnam has made progress in combating malaria, for which the mortality rate declined sharply, to about 5 percent of the rate in the early 1990s, after the country introduced antimalarial drugs and treatment. However, tuberculosis (TB) cases are on the rise, with 57 deaths per day reported in May 2004. With an intensified vaccination program, better hygiene, and foreign assistance, Vietnam hopes to reduce sharply the number of TB cases and annual new TB infections.

As of September 2005, Vietnam had diagnosed 101,291 human immunodeficiency virus (HIV) cases, of which 16,528 developed acquired immune deficiency syndrome (AIDS) and 9,554 died. But the actual number of HIV-positive individuals is estimated to be much higher. An average of 40–50 new infections are reported every day in Vietnam. Vietnam hopes to contain the HIV infection rate at the current official rate of 0.35 percent, which is about average worldwide, by limiting the disease as much as possible to sex workers and intravenous drug users. However, if the current trend continues, the number of infected persons could reach 1 million by 2010. One of the impediments to containing HIV/AIDS is that the victims face discrimination and stigmatization that are more severe than almost anywhere else in the world, according to a United Nations official. In June 2004, the Bush Administration announced that Vietnam would be one of 15 nations to receive funding as part of a US\$15 billion global AIDS plan (Ministry of Health ,2004).

Welfare: Vietnam's welfare efforts target victims of the Second Indochina War (1954–75), such as individuals disabled in combat or by toxic chemicals and the families of fallen combatants. About 5 million Vietnamese, corresponding to more than 6 percent of the population, are disabled. The Ministry of Labor, War Invalids, and Social Affairs administers welfare. Vietnam has legislated a social insurance system with provisions for old age, disability, and death; sickness and maternity; and work injury. Coverage is reported to be mandatory for state employees, non-state enterprises with more than 10 employees, and foreign-invested enterprises. Special programs are said to exist for government civil servants and armed forces personnel.

1.3.Economic Statements

1.3.1 Ekonomy

Overview: Beginning in the 1980s, dire economic conditions forced the government to relax restrictions on private enterprise and sharply cut back on labor camp prisoners, many of them entrepreneurs. In 1986 Vietnam launched a political and economic renewal campaign (Doi Moi) that introduced reforms intended to facilitate the transition from a centralized economy to a “socialist-oriented market economy.” Doi Moi combined government planning with free-market incentives. The program abolished agricultural collectives, removed price controls on agricultural goods, and enabled farmers to sell their goods in the marketplace. It encouraged the establishment of private businesses and foreign investment, including foreign-owned enterprises.

By the late 1990s, the success of the business and agricultural reforms ushered in under Doi Moi was evident. More than 30,000 private businesses had been created, and the economy was growing at an annual rate of more than 7 percent. From the early 1990s to 2005, poverty declined from about 50 percent to 29 percent of the population. However, progress varied geographically, with most prosperity concentrated in urban areas, particularly in and around Ho Chi Minh City. In general, rural areas also made progress, as rural households living in poverty declined from 66 percent of the total in 1993 to 36 percent in 2002. By contrast, concentrations of poverty remained in certain rural areas, particularly the northwest, north-central coast, and central highlands.

In 2001 the Vietnamese Communist Party (VCP) approved a 10-year economic plan that enhanced the role of the private sector while reaffirming the primacy of the state. In 2003 the private sector accounted for more than one-quarter of all industrial output, and the private sector’s contribution was expanding more rapidly than the public sector’s (18.7 percent versus 12.4 percent growth from 2002 to 2003).

Despite these signs of progress, the World Economic Forum’s 2005 Global Competitiveness Report, which reflects the subjective judgments of the business community, ranked Vietnam eighty-first in growth competitiveness in the world (down

from sixtieth place in 2003) and eightieth in business competitiveness (down from fiftieth place in 2003), well behind its model China, which ranked forty-ninth and fifty-seventh in these respective categories. Vietnam's sharp deterioration in the rankings from 2003 to 2005 was attributable in part to negative perceptions of the effectiveness of government institutions. Official corruption is endemic despite efforts to curb it. Vietnam also lags behind China in terms of property rights, the efficient regulation of markets, and labor and financial market reforms. State-owned banks that are poorly managed and suffer from non-performing loans still dominate the financial sector.

Although Vietnam's economy, which continues to expand at an annual rate in excess of 7 percent, is one of the fastest growing in the world, the economy is growing from an extremely low base, reflecting the crippling effect of the Second Indochina War (1954–75) and repressive economic measures introduced in its aftermath. Whether rapid economic growth is sustainable is open to debate. The government may not be able to follow through with plans to scale back trade restrictions and reform state-owned enterprises. Reducing trade restrictions and improving transparency are keys to gaining full membership in the World Trade Organization (WTO), as hoped by mid-2006. The government plans to reform the state-owned sector by partially privatizing thousands of state-owned enterprises, including all five state-owned commercial banks (Worldbank 2004).

Pic. 3: Vietnam Economy



Source: <http://www.visit-mekong.com/vietnam/images/economy.jpg>

Gross Domestic Product (GDP): In 2003 Vietnam's GDP achieved 7.24% growth rate. Agriculture, forestry and aquaculture increased by 3.2%; industry and construction

increased by 10.34%; and services increased by 6.57%. The above growth rate was the highest in four years 2000-2003.

The growth of agriculture, forestry and aquaculture at 3.2% rate in 2003 was lower than 4.06% of 2002. Due to unfavorable weather conditions and flood, agriculture in 2003 only achieved 2.78% growth comparing to 4.01% of 2002. Aquaculture increased by 7.08% in 2003 comparing to 5.67% in 2002, due to reduced cost and the combination of rice cultivation and fish farming.

Industry and construction's growth rate of 10.34% in 2003 was higher than 9.44% of 2002; Industry increased by 10.27% comparing to 9.12% of 2002. Mining industry increased from 1.1% in 2002 to 5.79% in 2003. Crude oil production and coal mining in 2003 increased comparing to 2002, greatly contributing to the economy growth in general and export revenue in particular. Some key products of processing industry greatly influenced economy and export growth such as aquaculture processing, papers, garment and textiles, chemical, fertilizers, cement, iron and steel, electrical engines, and TV and car assembling. Power generation continued to enjoy high growth rate (10.81% in 2002 and 11.62% in 2003). Growth of construction sector was maintained as last year level. Industry and construction continued to be the most contributing sectors for overall economic growth with 53.35% share (40.01% in 2001).

In services, 6.7% growth in 2003 was higher than 6.54% in 2002. Growth in first half of the year heavily suffered from negative impact of SARS, especially in tourism and air transportation, but quickly recovered in the second half of the year, thanks to the organization of 22 SEA GAMES in Vietnam

Table 1. GDP Growth by Sectors 2000-2003 (%)

| | 2000 | 2002 | 2003 | 2004 |
|---------------------------------------|-------------|-------------|-------------|-------------|
| GDP Growth | 6.79 | 6.89 | 7.04 | 7.24 |
| Agriculture, forestry and aquaculture | 4.63 | 2.83 | 4.06 | 3.2 |
| Industry and construction | 10.7 | 10.39 | 9.44 | 10.34 |
| Services | 5.32 | 6.1 | 6.54 | 6.57 |

Source: General Statistic Office (GSO)

Of the 7.24% GDP growth in 2003, industry and construction sector contributed 3.86%; services contributed 2.67%; agriculture, forestry and aquaculture contributed 0.70%. Observing 4-year period 2000 - 2003, the contribution of industrial sector was comparatively high and stable: the contribution of services was increasing gradually, while the contribution of agriculture, forestry and aquaculture was low and unstable (IMF World Economic Outlook and EconStats, 2004).

Government Budget: In November 2003, Vietnam's National Assembly approved a total state budget of about US\$12 billion for 2004, corresponding to about 26.5 percent of estimated gross domestic product (GDP). The government's budget deficit, currently targeted not to exceed 5 percent, is rising but remains under control in the view of independent observers.

Inflation: In 2004 inflation was 9.5 percent, higher than the 3.4 percent rate measured in 2000 but down significantly from 160 percent in 1988. The long-term decline reflects the beneficial effect of fiscal and monetary reforms aimed at stabilizing the economy.

Agriculture, Forestry, and Fishing: In 2004 agriculture and forestry accounted for 21.8 percent of gross domestic product (GDP), and during 1994–2004 the sector grew at an annual rate of 4.1 percent. However, agricultural employment was much higher than agriculture's share of GDP; in 2005 some 60 percent of the employed labor force was engaged in agriculture, forestry, and fishing. Agricultural products accounted for 30 percent of exports in 2005. The relaxation of the state monopoly on rice exports transformed the country into the world's second or third largest rice exporter. Other cash crops are coffee, cotton, peanuts, rubber, sugarcane, and tea.

In 2003 Vietnam produced an estimated 30.7 million cubic meters of roundwood. Production of sawnwood was a more modest 2,950 cubic meters. In 1992, in response to dwindling forests, Vietnam imposed a ban on the export of logs and raw timber. In 1997 the ban was extended to all timber products except wooden artifacts. During the 1990s, Vietnam began to reclaim land for forests with a tree-planting program.

Vietnam's fishing industry, which has abundant resources given the country's long coastline and extensive network of rivers and lakes, has experienced moderate growth overall. In 2003 the total catch was about 2.6 million tons. However, seafood exports expanded fourfold from 1990 to 2002 to more than US\$2 billion, driven in part by shrimp farms in the South and "catfish," which are a different species from their American counterpart but are marketed in the United States under the same name. By concentrating on the U.S. market for the sale of vast quantities of shrimp and catfish, Vietnam triggered antidumping complaints by the United States, which imposed tariffs in the case of catfish and is considering doing the same for shrimp. In 2005 the seafood industry began to focus on domestic demand to compensate for declining exports (MARD, 2005).

Mining and Minerals: In 2003 mining and quarrying accounted for a 9.4 percent share of gross domestic product (GDP); the sector employed 0.7 percent of the workforce. Petroleum and coal are the main mineral exports. Also mined are antimony, bauxite, chromium, gold, iron, natural phosphates, tin, and zinc.

Industry and Manufacturing: Although industry contributed 40.1 percent of gross domestic product (GDP) in 2004, it employed only 12.9 percent of the workforce. In 2000, 22.4 percent of industrial production was attributable to non-state activities. During 1994–2004, industrial GDP grew at an average annual rate of 10.3 percent. Manufacturing contributed 20.3 percent of GDP in 2004, while employing 10.2 percent of the workforce. During 1994–2004, manufacturing GDP grew at an average annual rate of 11.2 percent. The top manufacturing sectors—food processing, cigarettes and tobacco, textiles, chemicals, and electrical goods—experienced rapid growth. Almost a third of manufacturing and retail activity is concentrated in Ho Chi Minh City.

Energy: Petroleum is the main source of commercial energy, followed by coal, which contributes about 25 percent of the country's energy (excluding biomass). Vietnam's oil reserves are in the range of 270–500 million tons. The World Bank cites the lower bound of the range. Oil production rose rapidly to 403,300 barrels per day in 2004, but output is believed to have peaked and is expected to decline gradually. Vietnam's anthracite coal reserves are estimated at 3.7 billion tons. Coal production was almost 19 million tons in 2003, compared with 9.6 million tons in 1999. Vietnam's potential natural

gas reserves are 1.3 trillion cubic meters. In 2002 Vietnam brought ashore 2.26 billion cubic meters of natural gas. Hydroelectric power is another source of energy. In 2004 Vietnam began to build a nuclear power plant with Russian assistance.

Crude oil is Vietnam's leading export, totaling 17 million tons in 2002; in 2004 crude oil represented 22 percent of all export earnings. Petroleum exports are in the form of crude petroleum because Vietnam has a very limited refining capacity. Vietnam's only operational refinery, a facility at Cat Hai near Ho Chi Minh City, has a capacity of only 800 barrels per day. Several consortia have abandoned commitments to finance a 130,000-barrel-per-day facility at Dung Quat in central Vietnam. Refined petroleum accounted for 10.2 percent of total imports in 2002.

Services: In 2004 services accounted for 38.2 percent of gross domestic product (GDP). During 1994–2004, GDP attributable to the services sector grew at an average annual rate of 6.0 percent.

Banking and Finance: Vietnam's first stock exchange, known as the Ho Chi Minh City Securities Trading Center, was established in July 2000. By the spring of 2005, the number of companies listed on the exchange had reached 28, representing a total market capitalization of only US\$270 million. In March 2005, Vietnam opened an over-the-counter exchange, known as the Hanoi Securities Trading Center. The purpose of the second exchange is to expedite the process of equitization (partial privatization) of state-owned enterprises. Although these exchanges are still very small, officials have set the goal of expanding their combined market capitalization to 10 percent of gross domestic product by 2010 and gradually phasing out restrictions on foreign ownership of shares. In September 2005, Vietnam's prime minister announced that the limit on foreign share ownership would rise from 30 percent to 49 percent.

Vietnam's banks suffer from low public confidence, regulatory and managerial weakness, high levels of non-performing loans (NPL), non-compliance with the Basel capital standards, and the absence of international auditing. Since 1992 Vietnam's banking system has consisted of a combination of state-owned, joint-stock, joint-venture, and foreign banks, but the state-owned commercial banks predominate, and they suffer from

high levels of NPL, most of them to state-owned enterprises. Consequently, in September 2005 Vietnam decided to equitize all five state-owned banks—a change from previous plans to equitize only two of them. In addition, Vietnam plans to boost the transparency of its financial system by establishing a credit-rating agency and performance standards for joint-stock banks. Large foreign banks are balancing their strong interest in serving multinationals in Vietnam and frustration with continuing restrictions on their activities. Although Vietnam is a cash-based society, 300 to 400 automated teller machines (ATMs) have been installed, and about 350,000 debit cards are in circulation (SBV, 2005).

Tourism: In 2004 Vietnam received 2.9 million international arrivals, up from 2.4 million the previous year. The annual increase represented a strong rebound from a slight decline in 2003 attributable to the severe acute respiratory syndrome (SARS) epidemic in Asia. From 1999 to 2004, tourism rose by 63 percent. Most of the visitors in 2004—27 percent—came from China, with 8–9 percent each coming from the United States, Japan, and South Korea. The Vietnam National Administration of Tourism is following a long-term plan to diversify the tourism industry, which brings needed foreign exchange into the country (SRV , 2004).

Labor: In 2004 the unemployment rate in urban areas was 5.6 percent, down from 5.8 percent in 2003 and 6.0 percent in 2002 (ILSSA , 2004).

Foreign Economic Relations: Vietnam is an observer to the World Trade Organization (WTO), but it aspires to full membership as early as mid-2006. Joining the WTO is vitally important because membership will free Vietnam from textile quotas enacted worldwide as part of the Multifiber Arrangement (MFA) of 1974. The MFA placed restrictions on the import by industrialized countries of textiles from developing countries. For China and other WTO members, however, textile quotas under the MFA expired at the end of 2004, as agreed in the Uruguay Round of trade negotiations in 1994. Partially as a result, Vietnam's textile exports stagnated in 2005.

Economic relations with the United States are improving but are not without challenges, even beyond Vietnam's aspirations to join the WTO. Although the United States and Vietnam reached a landmark bilateral agreement in December 2001 that boosted

Vietnam's exports to the United States, disagreements over textile and catfish exports are hindering full implementation of the agreement. Further disrupting U.S.-Vietnamese economic relations are efforts in Congress to link non-humanitarian aid to Vietnam's human rights record. Barriers to trade and intellectual property are also within the purview of bilateral discussions.

Given neighboring China's rapid economic ascendancy, Vietnam's economic relationship with China is of utmost importance. Following the resolution of most territorial disputes, trade with China is growing rapidly, and in 2004 Vietnam imported more products from China than from any other nation. In November 2004, the Association of Southeast Asian Nations (ASEAN), of which Vietnam is a member, and China announced plans to establish the world's largest free-trade area by 2010 (Worldbank , 2004).

Import – Export

Export revenue in 2003 was US\$ 19.9 billion, an increase of 19% comparing to 2002 of which domestic sector exported US\$ 9.9 billion, an increase of 11.7%; FDI sector exported US\$ 10 billion, an increase 27.2%. Revenue from 7 products - crude oil, garment and textiles, footwear, electronic and computers, rice, wood products (products with export revenue over US\$ 500 million) - contributed US\$ 13.8 billion, comprising 69.5% of total export revenue, an increase of 19.5% comparing to 2002.

Import value in 2003 was US\$ 25 billion, an increase of 26.7% to the year 2002, where domestic economic sector imported US\$ 16.3 billion, accounting for 65.1%, an increase of 24.9%; FDI sector imported US\$ 8.7 billion, an increase of 30.1%. Imports value increased mainly by the increase in importation of raw materials, machinery for production of products for domestic and foreign market.

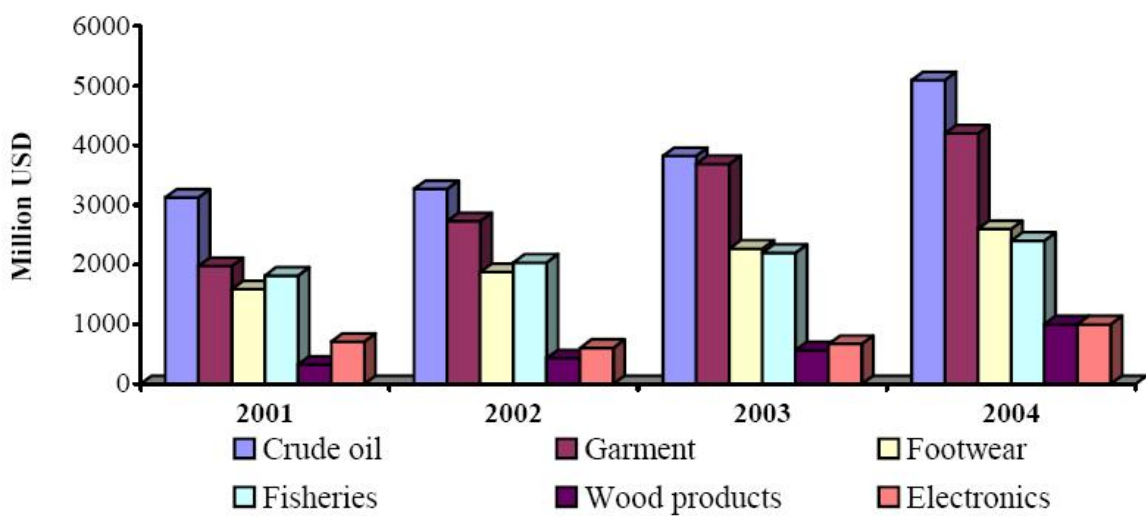
Trade deficit of US\$ 5.12 billion in 2003 i.e. 25.7% of export revenue, was the biggest deficit in the last 5 years. The deficit by domestic sector was US\$ 6.4 billion while FDI (including crude oil) had an export surplus of US\$ 1.29 billion; excluding the revenue from crude oil, the FDI deficit was US\$ 2.49 billion (SEDP, 2005).

Table2 : Foreign Trade in 2003

| | Total | | |
|-----------------------------------|--------------|---------------|---------------|
| | | Export | Import |
| Total value (US\$ million) | 44875 | 19880 | 24995 |
| Domestic sector | 26138 | 9868 | 16270 |
| FDI sector (including crude oil) | 18737 | 10012 | 8725 |
| In comparison with 2002(%) | 23.2 | 19 | 26.7 |
| Domestic sector | 19.6 | 11.7 | 24.9 |
| FDI sector (including crude oil) | 28.5 | 27.2 | 30.1 |

Source: General Statistic office (GSO)

Fig. 2: Some key export goods with turnover of more than USD 1 billion



Source: GSO and MPI

Trade Balance: In 2004 Vietnam ran a merchandise trade deficit of US\$5 billion, or 16 percent of imports (WTO , 2004).

Balance of Payments: The current account balance was negative US\$1.4 billion in 2004. Vietnam last registered a slightly positive current account balance in 2001.

External Debt: In 2004 external debt amounted to US\$16.6 billion, or 37 percent of gross domestic product (GDP).

Foreign Direct Investment : Industry and construction had 415 projects with US\$ 1.027 billion; contributing 69.6% in total number and 67.9% in registered capital. Agriculture, forestry and aquaculture had 84 projects with total registered capital of US\$ 157.5 million, accounting 14.1% in number and 10.4% in registered capital. Services had 97 projects with US\$ 328 million, accounting for 16.3% in number and 20.7% in registered capital.

Countries and territories leading in FDI in Vietnam include: Taiwan (151 projects with US\$ 293.8 million), Korea (147 projects with US\$ 249.3 million), British Virgin Islands (24 projects with US\$ 193 million), China (51 projects with US\$ 137.6 million), Australia (11 projects with US\$ 110.3 million), Hongkong (35 projects with US\$ 102.7 million), and Japan (40 projects with US\$ 78.6 million).

Table 3. Development Investment in 2003

| | Implemented (VND trillion) | | Against targets of 2003 and implementation of 2002 (%) | |
|-------------------------------|-------------------------------|-------|---|---------------------|
| | 2002 | 2003 | Target of 2003 | Implemented 2002 |
| Total | 183.8 | 217.6 | 100.9 | 118.3 |
| I. State budget investment | 103.3 | 123.0 | 101.9 | 119.0 |
| II. Private sector investment | 46.5 | 58.1 | 100.2 | 124.9 |
| III. FDI | 34.0 | 36.5 | 101.3 | 107.4 |

Source: General Statistic Office (GSO)

Foreign Aid: The World Bank’s assistance program for Vietnam has three objectives: to support Vietnam’s transition to a market economy, to enhance equitable and sustainable development, and to promote good governance. From 1993 through 2004, Vietnam received pledges of US\$29 billion of official development assistance (ODA), of which about US\$14 billion, or 49 percent, actually has been disbursed. In 2004 international donors pledged ODA of US\$2.25 billion, of which US\$1.65 billion actually was disbursed. Three donors accounted for 80 percent of disbursements in 2004: Japan, the World Bank, and the Asian Development Bank. During the period 2006–10, Vietnam hopes to receive US\$14 billion–US\$15 billion of ODA.

Currency and Exchange Rate: As of December 2005, one U.S. dollar was equivalent to about 15,913 Vietnamese dong (D). The relationship between the U.S. dollar and Vietnamese dong is important because the dong, although not freely convertible, is loosely pegged to the dollar through an arrangement known as a “crawling peg.” This mechanism allows the dollar-dong exchange rate to adjust gradually to changing market conditions.

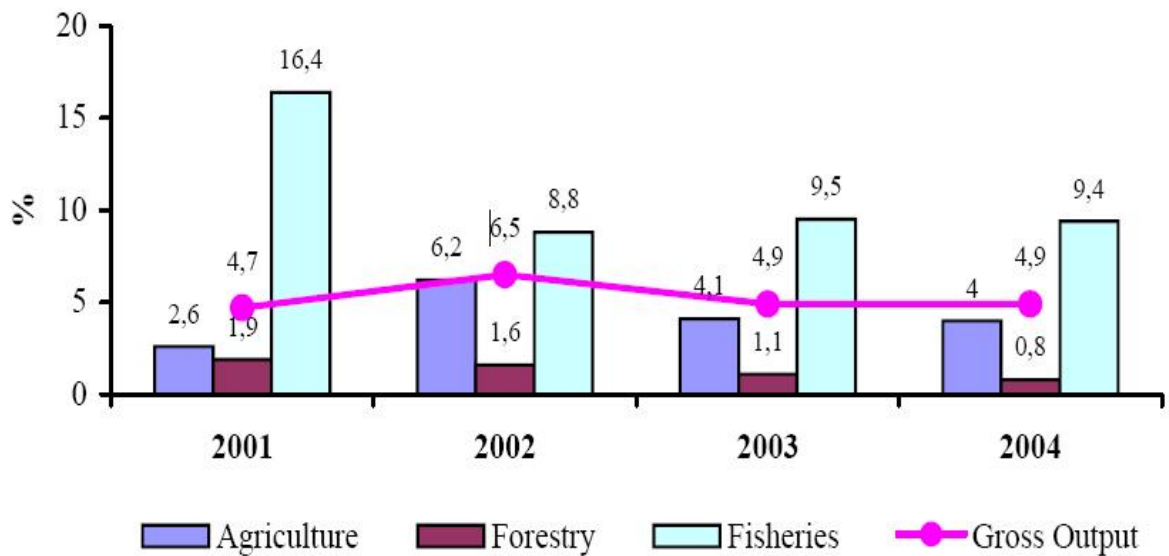
1.3.2. Agriculture, Forestry and Fisheries

Agricultural, forestry and fisheries production in 2004 faced some certain difficulties. In particular, widespread drought and/or bitter cold in northern provinces badly affected the winter-spring rice crop, afforestation and aquaculture. The avian influenza outbreak in most of provinces and cities in the first quarter of the year; long-lasting hot weather in early July inundation caused by heavy rains induced complete loss of newly planted summer rice in many parts of the Red River delta.

However, since the weather became more favourable in the following months and thanks to appropriate measures taken to overcome the above-mentioned difficulties and facilitate the development of the 3 sub-sectors, the general gross output of the sector as a whole is still good and higher than in the last year.

The gross output of agriculture, forestry and fisheries sub-sectors in 2004 is estimated at 172,800 billion VND (at the 1994 comparative price), i.e. increased by 4.9% compared with the year 2003. Of this amount, the agricultural output is about 133,200 billion VND (4% increased), the forestry output - 6,200 billion (0.8% increased) and the fisheries output - 33,400 billion VND (9.4% increased).

Figure 3: Growth rate of gross output of agriculture, forestry and fisheries



Source: www.imf.org

Output of food crops continues to develop and is higher than that of the last year thanks to applications of high yield seeds⁶. It is estimated that the output of grain food crops will reach 39.1 million tons, increased by 1.4 million tons compared with that in 2003.

A part of the rice cultivating land that has given low and unstable yield has been then shifted to being used for aquaculture or growing other crops of higher value. After 4 years of cropping pattern changes, the economic structure and efficiency of the agricultural subsector have been considerably improved.

Husbandry has been increasing its weight in the agricultural output. Many new breeds of animals have been raised, especially the porker breed.

In the forestry sub-sector, there have been positive movements to shift from the domination of state-owned forest farms to the mobilization of social entities and participation of many economic sectors. Efforts have been made to continue the 5 million hectares Reforestation Project; promote forest restoration-oriented protection, conservation and revitalization, as well as increasing the forest coverage to about 38.7%.

The fisheries sub-sector continues to develop and greatly contributes to the growth of the whole sector. The total yearly output of this sub-sector is estimated to increase by 9.4% compared with the year 2003 and account for 19.3% of the sector's total gross output. High quality breeds of shrimps and fish are being raised, and the raising technology is being enhanced step by step.

First steps have been made to diversify rural trades. Many industrial bases have been opened or developed, using local labour and materials. Different forms of commercial, financial and agricultural technique services have been expanded, contributing to changing the agricultural - rural labour structure, improving the rural population's income and living standards.

The rural economy has achieved visible progress, established co-operatives have been operating well, providing more products and services for the life and export. Rural infrastructure has been constantly upgraded. It is expected that in the year 2004, 97 more communes will have access to electricity. By this time, 58% of the households have already had clean water, and 97.3% of the communes have had car accessible roads connecting to the communal centres or commune complex. Many traditional trades have been restored and developed, attracting more labour force, and by that way, creating jobs and increasing the population's income, making an active contribution to the process of rural labour structure shifting.

In 2004, it is expected to complete the construction of and put into operations 103 irrigation works. In addition, the canal concretising program is being vigorously implemented in many provinces, contributing to the production development.

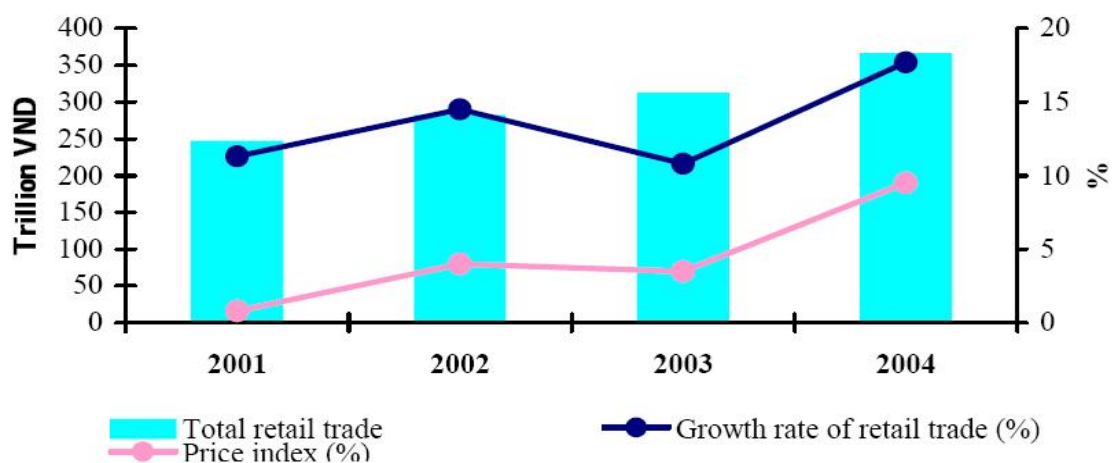
The biggest difficulties for the agriculture, forestry and fisheries sector include the followings: the avian influenza in the early months of the year caused a huge loss to the husbandry sub-sector (about VND 1,300 billion), affecting the general economic growth.

The recovery of animal raising/husbandry is progressing slowly; whereas the price of animal food is highly increasing and large-scale animal farm owners do not have sufficient capital. The price of agricultural materials and inputs has significantly increased, especially fertilizers, adversely impacting to the development of cropping cultivation. Many law cases claimed by the foreign countries (such as the anti-dumping cases of catfish, shrimps, etc.) have affected the production and export of agricultural products. Due to the avian influenza and droughts in the early months of the year, the production cost of the agriculture, forestry and fisheries sector has considerably risen, leading to the outcome that the value added of the sector's output is only 3.3% (MARD, 2005).

1.3.3. Services sector

Domestic trade has been re-structured to facilitate wholesale trade, expand the network of transactions and goods exchanging among different markets in mountainous, rural and urban areas. The total retail value and services turnover in 2004 are estimated to be VND 365,000 billion, increased by 17.7% compared with that of 2003.

Fig 4: Total retail value of goods and services



Source: GSO and MPI

Services such as finance, banking, insurance, etc. have been expanded and included the participation of businesses from all the economic sectors, both domestic and foreign. Such operations as capital mobilization, lending and payment have strongly developed, especially the state commercial bank network has just introduced the inter-bank automatic teller machine (ATM) system, which has contributed to the rapid increase of turnover for the state commercial banks.

Transportation services have been rather well developed. The urban public transport has been much improved in terms of vehicle number, number of service routes, and service quality; the total turnover of the sector is estimated to reach approx. USD 19,000 billion, i.e. increased by 8.7%. Goods transported through sea ports are estimated to be 123.7 million tons, 8% increased compared with the year 2003 (WTO , 2004).

Construction works (civil works, operation and maintenance of constructed works) have reached the advanced level in the region. In particular, the sector has received new construction technologies, self-furnished with a lot of modern equipment, and as a result, has been able to satisfy development needs in the construction field and is capable of doing major construction works of modern technology. There has also been progress in management and administration of construction contracts in the country and overseas.

Many projects and works have been implemented and met the urbanization requirement or the needs of people.

Post and telecommunication services have been rapidly developed, and step by step opened the market to allow some non-state businesses to participate, increasing the competitiveness. Many modern means of communication of international standards have been formed and have had initial achievements by satisfying the public requirements of communication and trading, and at the same time, providing telecommunication services at a significantly reduced price¹¹. The turnover of the whole sector has reached VND 31,000 billion, i.e. increased by 5%.

Tourism continues to develop, being supported by the wide participation of various economic sectors. A lot of tourism centres and attractions have been restored and improved; new types and itineraries of tourism have been introduced with more diversified and attractive products. It is estimated that in 2004 the tourism sector will fulfil the plan of receiving 2.8 million visits of foreign tourists and 13.6 million tours of domestic tourists, and the total turnover from tourism will be VND 25,000 billion, i.e. 13% increased compared with the last year.

The output of services sectors in 2004 is expected to increase by 8%; the value added is expected to increase by 7.3%, lower than the general growth of the economy. However, such results will be great in considering the implicitly difficult conditions in the early months of the year.

Table 4: Some indicators for services

| | 2001 | 2002 | 2003 | 2004 |
|---|-------|-------|-------|-------|
| Growth rate gross output (%) | 6.7 | 7 | 7.2 | 8 |
| Growth rate total retail value (%) | 11.3 | 14.5 | 10.8 | 17.7 |
| Number of foreign tourists (Thousand people) | 2,330 | 2,550 | 2,429 | 2,800 |
| Number of telephones per 100 people | 5.5 | 6.9 | 9 | 12 |
| Ratio of people using internet (% of population) | | | | 6.9 |

Source: www.imf.org

Notwithstanding the above achievements, some activities in the services sectors are still facing a lot of difficulties and constraints: the growth rate of the sector is lower than the targeted plan and not yet relevant to the sector's potential; the service charges in some sub-sectors are still high and inappropriate, if compared with that in other countries of the region and the world; some services such as stock exchange, real estate transactions, etc. are generally slowly developing. The circulation system of most of critical items of goods is ineffective, causing opportunities for tradesmen to take that advantage to speculate in those goods, increase the price and rig the market. The state management function in terms of trade in the provinces is not yet fully performed, still being stagnating and inactive.

Smuggling and trading of adulterated goods still happen a lot and adversely affect production. Businesses are still weak in forecasting, information accessing and marketing; consequently they are not active enough to expand the market. Tourism activities are not yet well organized, the tourism environment is not very attractive to tourists and the country's tourism potential is not yet fully exploited (MOLISA, 2004).

2. SOCIAL PROGRESS AND ACHIEVEMENTS IN POVERTY REDUCTION

2.1 Poverty reduction activities continue to achieve encouraging results

(1) Since the economy continues to develop well, the income of different classes of the population continues to be improved, in spite of price increases. Poverty reduction activities are implemented based on clear focal points; especially focus has been placed to very disadvantaged provinces, where the poverty rate and the risk of falling back to poverty are high. The poverty reduction movement is propagandised widely and acquires the participation of the whole society. According to the national poverty standard, by the end of 2004, there will be 14 million poor households in the country and the rate of poor households will be reduced to about 8.3% (compared with 1.7 million poor households and the poverty rate of approx. 11% in 2003). The reduction therefore is more than 2% each year.

Table 5: Poverty rate in different regions, according to the national standard

| | Beginning 2000 | End 2003 | Estimated for 2004 |
|-------------------------------|-------------------|-------------|-----------------------|
| Nationwide | 17.2 | 11.0 | 8.3 |
| <i>Of which:</i> | | | |
| North-east mountainous region | 22.3 | 13.8 | 9.5 |
| North-west mountainous region | 33.9 | 18.7 | 16.4 |
| Red River delta | 9.7 | 8.1 | 6.1 |
| North central region | 25.6 | 15.7 | 12.7 |
| Central coastal region | 22.3 | 12.2 | 8.8 |
| Central Highland | 24.9 | 17.4 | 13.6 |
| South east region | 8.9 | 6.3 | 3.1 |
| Mekong River delta | 14.2 | 9.3 | 7.3 |

Source: www.img.org

Out of 64 provinces, 36 provinces have the poverty rate of less than 10%, of which 12 provinces have the poverty rate below 5% (namely Ho Chi Minh city, Hanoi, Binh Duong, Da Nang, Khanh Hoa, Tay Ninh, Can Tho, Long An, An Giang, Hung Yen, Quang Ninh); 4 other provinces have the poverty rate of more than 20% (Bac Kan, Dien Bien, Lai Chau, Soc Trang).

(2) The number of poor households reduced quickly throughout the country and in all the geographical regions. The higher the poverty rate is, the higher the reduction tends to be.

(3) From 2001 to 2003, more than 11 million people (i.e. 3.66 million people per year on the average) were supported by free-of-charge health care services. However, the services quality is still limited due to the fact that the maximum allowable expenditure for one time of medical consultation/examination/treatment is still low (that at the district level should not exceed VND 147,000).

More than 7 million pupils were exempted from tuition or allowed to pay koşer tuition (2.33 million pupils per year on the average). More than 4 million pupils were given notebooks, textbooks and scholarships (1.33 million pupils per year on the average).

More than 230,000 poor households were supported in terms of housing. More than 10,000 poor ethnic households were supported in terms of productive land. The rate of poor ethnic households given access to clean water supplies and electricity has been increased. Tens of thousands of relocated households were supported by to stabilize their living conditions. Practices of uncontrolled migration of people and slash-and-burn cultivation were reduced in the recent years.

(4) The poverty reduction program helped to considerably change the rural life, in terms of both social and economic aspects, in poor and disadvantaged communes in the mountains, frontier lands, islands, as well as isolated and remote areas. A Ministry of Labour, Invalids and Social Affairs. (MOLISA) qualitative survey of 3,700 poor households in 2004 indicated that the annual income and living standards were highly increased. More than 90% interviewees said their life had become better thanks to the

program; and up to 12% of poor households said if there had not been the policy of tuition exemption or reduction, they would have never been able to send their children to school.

(5) Living standards of a major part of the population, especially among the groups of poor households and ethnic minorities, have been improved in terms of nutrition requirements, clothes, health care, education, culture, housing and means of transport.

However, the improvement among these groups is still slower than that among the groups of richer families.

2.2 New progress in terms of labour force and employment

In 2004, employment opportunities were created for 1.55 million people, i.e. equivalent to 103.3% of the targeted plan. Of this number, 830,000 jobs were in agricultural, forestry and fisheries sectors; 330,000 other jobs were in construction and industry sectors; and 390,000 jobs were in trade and services. About 65,000 workers were exported.

Thanks to these achievements, the urban unemployment rate has been reduced from 6% in 2002 to 5.6% in 2004. More labour force has been attracted to the agricultural, forestry and fisheries sectors, which have provided basis to increase the rate of used working time in rural areas from 75.5% in 2003 to 79.3% in 2004.

Table 6: Rate of used working time in rural areas (%)

| | 2002 | 2003 | 2004 |
|------------------------------|-------------|--------------|--------------|
| Nationwide | 75.5 | 77.94 | 79.34 |
| Red river delta | 76.3 | 78.73 | 80.39 |
| North-east | 75.5 | 77.37 | 78.90 |
| North-west | 71.1 | 74.45 | 77.61 |
| North central region | 74.6 | 76.06 | 76.55 |
| South central coastal region | 75.0 | 77.69 | 79.36 |
| Central Highlands | 78.1 | 80.58 | 80.80 |
| South east | 75.5 | 78.51 | 81.56 |
| Mekong river delta | 76.6 | 78.43 | 78.66 |

Source : Survey of labour force and employment in 2004

In the urban areas, the unemployment rate significantly reduced among workers of ages 15 - 19 (reduced from 15% to 13.9%), followed by the rate among people of ages 50-54 (from 3.2% in 2003 to 2.4% in 2004). However, the rate seems to increase among people of ages 30 - 34 and 55 - 59.

Table 7: Increase or decrease of nationwide unemployment rate among people at working age, sort by age groups

Unit: %

| | 1 July 2003 | 1 July 2004 | Increase/ decrease |
|--|-------------|-------------|--------------------|
| Workers at working age in general | 5.8 | 5.6 | - 0.2 |
| <i>Sort by age groups</i> | | | |
| 15 - 19 years old | 15.0 | 13.9 | - 1.1 |
| 20 - 24 years old | 13.8 | 13.8 | 0 |
| 25 - 29 years old | 7.5 | 7.2 | - 0.3 |
| 30 - 34 years old | 4.6 | 5.2 | + 0.6 |
| 35 - 39 years old | 4.0 | 4.0 | 0 |
| 40 - 44 years old | 2.9 | 3.1 | + 0.2 |
| 45 - 49 years old | 3.4 | 2.7 | - 0.7 |
| 50 - 54 years old | 3.2 | 2.4 | - 0.8 |
| 55 - 59 years old | 1.9 | 2.3 | + 0.4 |

Source: www.imf.org

However, many industrial parks and some sectors such as textile, leather, clothes making, have experienced the situation when supply in labour force is lower than demand. Many enterprises had vacant jobs but could not recruit necessary staff due to low qualifications of workers. Whereas services for workers are still inadequate and insufficient, especially housing, health cares, cultural conditions, etc. The workers' life is not ensured and social evils are strongly developing (SRV 2005).

2.3. Education and training

Universal education continues to be developed. The policy of making universality to everyone general primary education has been being pursued. By the end of the school-year 2004, 19 provinces and cities have reached the target of universal primary education at the right age and 19 provinces and cities have been recognized for applying universal secondary education.

The scope of lower education continues to be extended; primary education has started to develop in a stable manner. 97.5% of children have been effectively encouraged to acquire primary education at the right age. The number of elementary secondary level pupils has increased by 1.8%; that of tertiary level pupils increased by 6.6%. The scope of professional secondary education and vocational training in the recent years has increased more rapidly than that of college and high-school education. The number of new students enrolling in vocational training courses has been increased by about 10%, in professional secondary schools - by 8%, in universities, colleges and high schools - by 7%, compared with those of the previous school year.

The network of boarding schools for ethnic minority students has been strengthened and developed. At present, there are 48 provincial secondary boarding schools, 266 district elementary boarding schools, 519 semi-boarding schools in communes and groups of communes, with the total number of pupils of above 60,000.

Efforts are now being made to seek for measures of further improving the educational quality and efficiency. The quality of child caring and fostering activities in kindergartens has already been improved. General education has shown its quality and efficiency. The number of pupils who have to repeat class or drop out has been reduced (e.g., in the school year 2002 - 2003, the number of pupils repeating class in primary schools has been reduced by 0.5% from 1.75% to 1.24%; in elementary secondary schools - by 0.1% from 1.05% to 0.94%. The number of pupils drop out in tertiary schools reduced by 1%, from 8.18% to 7.19%). The training efficiency has been increased to 74.42% in primary schools, 70% in elementary secondary schools and 83.16% in tertiary schools.

Physical education and health care in schools have been paid more attention to and had certain progress. New versions of textbooks for classes 1, 2, 6 and 7 have been widely applied according to the National Assembly's Resolution No. 40. The program of concretised schools and classes continues to be under way. It is expected that by the end of 2004, more than 35,000 classes will be completed and utilized.

Regarding the structure of training, the group of technical and technology training is increasingly wanted, especially the informatics technology is developing rapidly, while the group of pedagogic training trends to decrease. However, agriculture, forestry and fisheries branches are only accounting for more or less 10% and therefore need to be developed.

The policy of tuition exemption or reduction was applied. Papers, notebooks, textbooks were given free and preferential policies were applied to pupils of ethnic minorities in cases of entrance exams. Therefore, the course of educational development has achieved remarkable results as follows: illiteracy has been basically eliminated, primary education has been universalised in a standardized manner, and the educational system has been complete in communes and groups of communes from the level of kindergarten to the level of elementary secondary schools. The rate of children going to school is about 90% - 95%, the rate of pupils attending classes and finishing secondary schools is gradually becoming the same throughout the country.

The training quality of some major technical and technological areas has been improved to a higher level. Most of graduates express their ambitions and aspiration of establishing their business and position in life, and are usually very active and independent.

The rate of graduates who can find jobs trends to increase every year. Graduates from colleges, universities or high schools contribute significantly to the socio-economic development. Many of them have been given high rewards in international and national competitions. Scientific research and technology transfer activities in colleges and universities have been much progressed, and helped to improve the quality of training.

However, there are still many deficiencies in the quality of education at different levels. Students are still weak in practical skills. This fact actually restrains them from applying their knowledge in practice.

The structure of the educational system is not yet completely reasonable, but it has not been adjusted yet. The scope of education is not yet closely monitored; the quality of education in some cases is still low and cannot meet the development requirements.

Textbooks are not yet appropriate, the teaching method is not regularly reformed, teaching staff is insufficient and sometimes is limited by low qualifications and inadequate organizational structure. The program of concretised classes and schools is implemented slowly. Participation in education is not yet fully implemented due to the lack of complete and synchronous legal documents regarding mechanism, policies and instructions¹⁷ as well as due to weak management of and insufficient co-operation among central and local agencies to manage non-public educational and training institutions. How to select the method to carry out the college entrance exam has been always a question (ILSSA, 2005).

2.4. Natural resources, environment and sustainable development

In the new context, baseline surveys and environmental protection need to be further strengthened to provide timely data and information for any adjustments and establishment of the socio-economic development plan.

In line with the Directive No. 36-CT/TW of the Politburo on "improvement of environmental protection during the period of industrialization and modernization" as well as other directives and resolutions, over the past many years, the Government has reserved a quite large part of the budget to implement projects on baseline surveys and environmental protection within annual and long-term planning terms. Ministries, agencies and provinces have made arrangements to conduct baseline surveys and protect the environment with defined focal points and priorities, and have all fulfilled the given tasks.

Baseline surveys of natural resources and socio-economic features have achieved major objectives, timely providing data for doing master plans. Environmental protection is actually playing an important role in the economy and has had initial positive progress. A lot of valuable survey data have been processed and appeared to be partially responsive to the reform requirements of the economy.

Results of baseline surveys and environmental protection over the past time include: baseline survey activities are done on regular basis, data on natural conditions and natural resources is collected and processed at fixed stations, present status and changes of resources of various types are investigated to provide a basis for more practical and scientific planning and/or plan adjustments by the year 2010 by different ministries, agencies and provinces. Regular and periodical baseline surveys on socio-economic conditions (social resources) of each region of the national territory, of each province and of the country as a whole are conducted to give justifications for making policies and identifying needs of the society. Many reports have been produced to present results of baseline surveys. Data on environment has been being collected, processed and maintained. Investigations have been carried out on environmental pollution levels, industrial wastes, domestic wastes, waste water, rubbish, etc. and major factors directly or indirectly relating to the land environment, air environment, water environment, ecosystem, rivers, oceans, etc.

Hydro-meteorological observations and data collection are done regularly and continuously to timely provide information to economic sectors and help to give precise forecasts. Measurements have been done, and the entire network of co-ordinates, elevations, astronomical observation and gravity has been refined in-land and on major islands at sea.

The topographical map of scale 1/50,000 has also been refined. In addition, further measurements and operations have been done to produce more than 1,000 new maps of different types. Nearly 10,000 km² have been measured and mapped in terms of regional geology, geo-hydrology and engineering geology. 158 geological studies are kept ongoing and geological reports have been submitted. Efforts are also being made to seek for precious and rare solid minerals. Investigations and measurements have been done to

produce maps of agricultural and special land administration. The basic-level land administration network has been basically completed and covered the entire country.

The Communist Party and the Government have paid attention to the environmental protection issue. Legal documents and regulations on environmental protection have been prepared, issued and enforced. The system of environmental standards has also been introduced in order to serve the environmental management works more effectively. Much progress has been recorded in terms of prevention and control of environmental pollution.

The Environmental Protection Strategy by 2010 as well as environmental protection orientations by 2020 have been established and then approved by the Government. There have been many policies and preventive plans to avoid and/or recover from environmental pollution, degradation and incidents.

Appraisal of environmental impact assessment reports, environmental monitoring, control and supervision have gained a lot of progress and are becoming an orderly routine. Many projects on capital construction and/or socio-economic development have experienced sound and proper environmental impact assessment process.

Education, training and information on environment and sustainable development have been carried out widely through mass media and by many other forms. These activities have actually gained encouraging results, and the social awareness of environmental protection has been positively developed.

Nevertheless, the environment in many urban and crowded residential areas is still being polluted, especially by hazardous wastes, which are not yet collected and processed in accordance with required standards. Most of industrial zones in the country do not have wastewater treatment stations as required. Uncontrolled mineral exploitation situation is not yet completely prevented, causing serious environmental pollution.

Planning and making development strategies for each field and area, some issues relating to baseline surveys and progress of project implementation are not yet relevant to the real conditions of the market economy.

The policy of "socialization" in investments for environmental protection is not yet given due attention and therefore not yet becomes a popular movement in the society that can encourage the voluntary participation of businesses.

The community awareness on environmental protection, in spite of being raised, is still at different levels. Many serious environmental incidents did occur, e.g. forest fire, riverbank collapse, and environmental pollution in industrial and densely populated zones (MOLISA, 2006).

2.5. Health care for people

The medical and health care system has been developed in many forms, providing various types of services and opportunities for making choice. Medical consultation and treatment services at public bases, for example, medical stations, regional polyclinics, district medical centres, etc. have been strengthened to improve the people's access to health care bases.

Medical bases, especially district and communal level bases, have been furnished with more facilities.

Table 8: Medical facilities at medical stations

| Indicator | Percentage |
|---|-------------------|
| Rate of medical stations having enough facilities for general consultations and treatments | 97.0 |
| Rate of medical stations having enough facilities for children care and nutrition | 86.1 |
| Rate of medical stations having enough facilities for productive health care | 24.7 |
| Rate of medical stations having enough facilities for consultations and treatments of special diseases | 12.2 |
| Rate of medical stations having enough facilities for consultations and treatments by traditional medicinal herbs | 10.6 |
| Rate of medical stations having enough facilities for sterilization/disinfection | 51.0 |
| Rate of medical stations having telephone line | 37.6 |

Source: www.imf.org

Most of medical stations have been furnished with medicine cabinet and popular kinds of medicine for medical consultations and treatments. Especially many medical stations have also used traditional medicinal herbs to enrich the medicine source and reduce the patient's expenditures.

Table 9: Availability of medicine

| Indicator | Percentage |
|--|------------|
| Rate of medical stations having enough anti-biotics | 86.0 |
| Rate of medical stations having enough medicine to treat cold and flu | 82.3 |
| Rate of medical stations having enough first-aid drug | 43.3 |
| Rate of medical stations having enough medicine to treat diarrhoea | 95.9 |
| Rate of medical stations having enough medicine for productive health care | 75.7 |
| Rate of medical stations having enough medicine to treat malaria | 53.7 |
| Rate of medical stations using or producing traditional medicinal herbs | 39.5 |

Source: www.imf.org

Provinces throughout the country have had plans to implement the Directive No. 06/TW-CT regarding strengthening and completing the basic-level health care system. Most of districts and communes have had Health Care Committees. Additional staffs have been appointed to the medical stations. By the end of 2003, there were totally 10,373 district medical stations with 47,668 staffs, i.e. nearly 4.6 staffs per station, on the average.

The staff included: 4 people with master degree on medicine, 6,288 doctors, 4 pharmacists with university degree, 2 nurses with university degree, 1 medical technician with university degree, 6 midwives with university degree, 23,915 physicians, 233 technicians with high-school degree, 401 pharmacists with high-school degree, 6 technicians with pharmaceutical high-school degree, and 3,263 nurses with high-school degree. More medical stations had had doctors. It was expected that by 2004, 65.4% of medical stations

would have doctors, 91.3% of them would have midwives or doctors in obstetrics or paediatrics, 37.8% would have nurses of secondary degree and above; and 79.8% of villages and hamlets would have medical staff.

In 2004, the medical sector could timely prevent the avian influenza from transmission to human and wide spreading at a large scale. The sector has been always maintaining guidance and instructions for prevention and control of epidemics. Propaganda has been strengthened on all means of mass media to publicize preventive and hygienic measures. Preventive health care has been promoted and active initiatives have been taken to prevent and control petechial fever, encephalitis by virus, etc., to wipe out the epidemics and reduce losses of life.

The sector has taken actions to implement Decision No. 139/2002/QĐ-TTg regarding medical consultations and treatments for the poor. So far, in every provinces and cities directly managed by the central government there has been a subsidiary of the Fund for Medical Consultations and Treatments for the Poor. The Fund's management board has gradually stabilized its organizational structure and started operating its services.

The number of beneficiaries from medical consultations and treatments has obviously increased. In 2003, this number was 13.5 million people, accounting for 16.8% of the whole country's population. The ratios of beneficiaries to population were highest in the provinces of the Central Highlands (41.1% of the population) and the northern mountains (33.3% of the population). This ratio even reached up to more than 70% in Ha Giang, Bac Kan, Son La, Dien Bien and Lai Chau provinces.

The budget for medical consultations and treatments for the poor has been improved. In 2003, the Fund for Medical Consultations and Treatments for the Poor had the total budget of VND 520 billion to cover the whole country. Of this amount, VND 125 billion were spent for the northern mountainous provinces, VND 114 billion for provinces in the Mekong River delta, VND 79 billion for provinces in the northern central region, and VND 73 billion for provinces in the Central Highlands.

Implementation arrangements for the National Standards on Commune level Health Care have also been made and had initial results. Preliminary assessment by the end of 2003 indicated that about 25% of the communes nationwide, mainly in the delta areas, had reached the standards. Sub-standard areas were mainly focusing traditional medicinal herbs, infrastructure and facilities, finance, etc.

The National Targeted Programs have been implemented since the 1990s and had achieved many important results, considerably contributing to the reduction of infectious epidemic diseases and those with available vaccine. The number of people contracting malaria has been reduced by 70% and the number of deaths caused by this disease has been reduced by more than 80%. These numbers are respectively 99%, 54%, 94% and 85% (compared with 1995) in case of diphtheritic, whooping cough, tetanus in newly born babies and measles. Polio was eliminated; tetanus in newly born babies was also eradicated in 2000. It is expected that leprosy will be abolished in 2005. The development of HIV/AIDS has been slowed down. The under 5 mortality rate of children has been reduced from 55% in 1995 to 32.8%, that of babies of less than 1 year old has been reduced from 42% in 1995 to 21% in 2003. In 2002, Vietnam was the first country in the world succeeded in containing SARS and had initial successes in controlling the avian influenza H5N1.

General health indicators of Vietnam have been improved against those of the countries with the same per capita income level. Some indicators of Vietnam are even equal to those of the countries with a 10 times higher income level. The average expectancy of life is 10 years more than that in the countries with the same income level. The first successful case of liver graftage has remarked a new development in the modern medical technique of Vietnam.

Despite encouraging results in health care services for the people, the medical sector is still facing big challenges. One of the challenges is that the illness model of Vietnam is now shifting from infectious diseases (which do not cost a lot for treatment) to noninfectious diseases, such as cardiovascular diseases, mental and nervous diseases, diabetes, chronic diseases and those diseases caused by unhealthy style of living. Many epidemic and infectious diseases have been controlled. However, there is still a high risk of

new occurrences. Preventive medical activities also need to be encouraged for early detection of the illness and epidemics, as well as provision of initial health care services to the people, especially those living in rural, mountainous and island areas.

The sector has not yet performed well its management function. Consequently, the drug price has considerably increased, affecting much the health care services for the people and leading to a strong reaction in the society. The issue of medical morality and evil incidents in the sector, especially in hospitals, is agonizing and needs to be resolved. Facilities and equipment at the medical stations are not yet sufficient and complete. About 3% of these stations (equivalent to more than 300 stations) still lack normal and ordinary medical facilities. Only 9.9% of the stations nationwide have equipment for vaccine storage and preservation. All of the stations do not have 100% of essential listed drugs, especially anti-biotics.

Highly qualified staffs are still unreasonably allocated. Most of them are still concentrating in the delta areas. There is still a shortage of pharmaceutical staff. Only 6.23% of the medical stations have pharmacists. Only 3.87% of the staff is working on traditional medicine, and 5,578 nurses with elementary education need to be given secondary education.

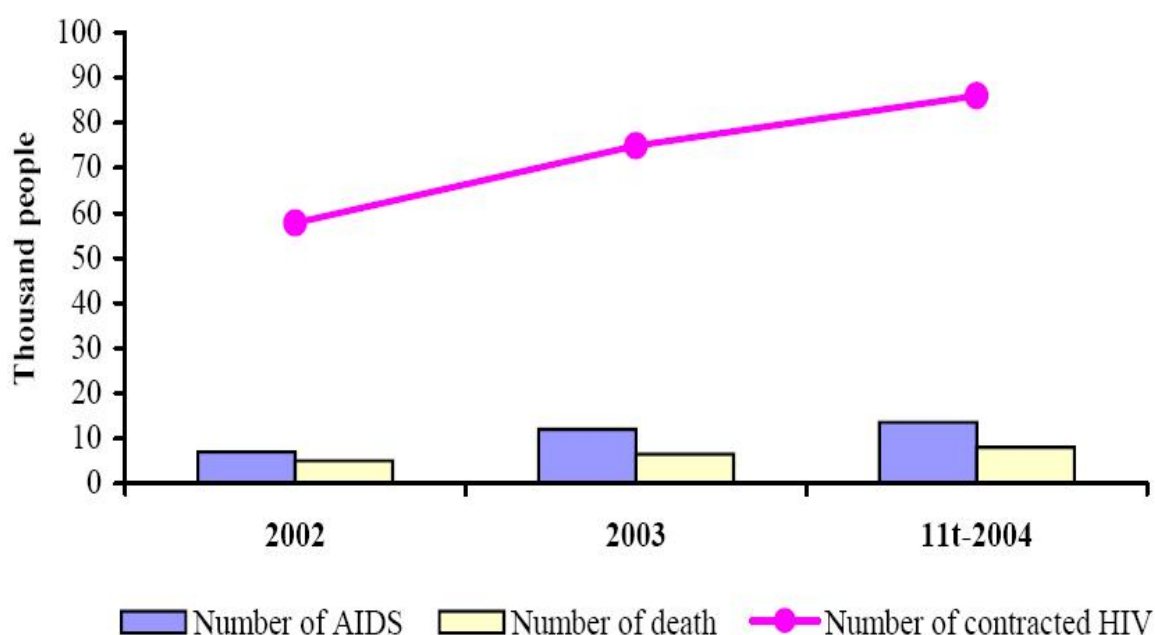
The ratio of medical staff to the population is still low, especially in the rural, far and repote areas. In 2003, the ratios of doctors, physicians, convalescence nurses and pharmacists to 10,000 people were respectively 5.88, 11.86, 5.95 and 0.77. The staffing structure in the sector is not yet reasonable and satisfactory to the national standards. This is also a reason affecting to the quality of medical consultations and treatments.

Deployment of HIV/AIDS prevention and control activities

HIV/AIDS has been spreading widely in 100% of cities and provinces, 93% of districts and more than 50% of communes throughout the country. It has caused direkt impacts to the human health and the national course of socio-economic development.

By November 2004, 86,000 people had been contracted HIV, of which 13,612 people had moved to AIDS stage, and 8,000 people died. About 45 people are infected with HIV/AIDS everyday. During the period 1999 - 2002, more than 10,000 people contracted HIV every year. Most of them were youngsters being of 20 - 29 years of age, accounting for up to 62% of the total number of HIV/AIDS patients.

Fig. 5: Number of people contracting and dying of HIV/AIDS in 2002 - 2004
(accumulative number)



Source: Ministry of Health

People who tend to be most easily infected with HIV/AIDS include those who inject drug (accounting for approx. 60%), prostitutes (more than 6%), and people who get the disease through sexual relations (about 2.9%). About 0.39% pregnant women are infected with HIV/AIDS. The rate of disease transmission from mother to child is relatively high, about 30 - 40%, increasing the number of babies born with HIV/AIDS. Those social evils such as drug addiction and, prostitution often have complex changes and make the HIV/AIDS prevalence become more difficult to control.

As estimated, by 2003, about 0.23% of the population had been infected with HIV/AIDS. Some provinces and cities have high ratio of HIV/AIDS patients to the total population, e.g. Quang Ninh province (580 HIV/AIDS patients per 100,000 people), Hai Phong (338 HIV/AIDS patients per 100,000 people), Ho Chi Minh city, Ba Ria – Vung Tau, An Giang, and Hanoi (181 HIV/AIDS patients per 100,000 people).

Actions for HIV/AIDS prevention and control have been vigorously taken, raising the people's awareness of preventive measures to avoid being infected with the disease, and ensuring compliance with national and international commitments in the field of HIV/AIDS control. Nevertheless, the HIV/AIDS disease still tends to further spread. The epidemic is becoming more and more complex in terms of scope, objects of infection and forms of transmission.

In 2004, the Ministry of Police, Ministry of Labour, Invalids and Social Affairs and Ministry of Health made joint efforts to undertake a lot of activities in many forms, e.g. propaganda and education, direct cure for prostitutes and people who try to give up drug addiction in detoxification centres. Education, information and communication have been strengthened to encourage the community to change their habits; educate people, especially teenagers and youngsters, of moral values, healthy style of living, and risks of being infected with HIV/AIDS. Education and information activities have reached to every families, every individuals, every villages and districts, and have made people recognize their responsibilities to voluntarily and actively participate in the fight against HIV/AIDS. Actions against discrimination to people who have caught HIV/AIDS have been extensively taken and have had encouraging results, helping those people to live usefully and integrate to the community. Models on HIV/AIDS prevention and control have been built. Every year, investment is made for more than 3,000 pointed communes and districts to implement those activities. As a result, the people's awareness and knowledge have been obviously improved. Surveys show that in 2002, up to 27.8 million people were provided with access to education and information on HIV/AIDS, and more than 65% of the population knew about HIV/AIDS.

More blood screening equipment has been furnished to the localities to ensure safety in blood transmission, which is also very important and needs to be taken care of.

Monitoring activities have been getting in order; the HIV/AIDS monitoring system in 64 provinces and cities as well as many districts throughout the country has been strengthened and developed, especially in 40 pointed provinces and cities and 6 target groups in high risks of getting disease. Behaviour monitoring has been implemented since the year 2000 in 5 provinces and cities. At present, 41 provinces and cities are allowed to confirm the positive result of HIV/AIDS testing; data on HIV/AIDS cases is updated on weekly and monthly basis.

The quality of medical treatment for HIV/AIDS patients is gradually getting improved. By this time, most of provinces have had separate departments or services to receive and cure HIV/AIDS patients. In 3 years 2001 - 2003, 38,907 HIV/AIDS patients were given medical examination, 17,000 people were out-patients, and 10,665 others were given hospital treatment. 14,447 patients were given opportunity infection treatment. In addition, treatment for people in professional risks has also been provided in different cities and provinces for 854 individual cases, of which 75% have been given preventive treatment, and 25% have been provided in-place consultation and treatment.

The testing consultative system and preventive treatment against mother-to-child transmission has been completed and widely applied, significantly increasing the number of pregnant women receiving HIV testing and consultation.

The system of management, taking care of and consultation at home and in the community for people contracting HIV/AIDS has been improved. During the period 2001 - 2003, consultation was given to more than 2 million people, in particular more than 480,000 people in 2003. More than 45,000 people infected with HIV/AIDS were managed, taken care and consulted. 73% of HIV infected people with clear address received care and consultation. There are many diverse forms of care and consultation, e.g. regular consultation (46%), documentation of health records (53%), physical and mental support, introduction of job and vocational training opportunities for people infected with HIV (Ministry of Health 2005).

2.6. Population, family and children issues

These fields of activities have had a lot of positive progress, for example, further integration of population issues with sustainable family development on the basis of coordination among various ministries, agencies and social institutions. The population in 2004 is estimated to be 82.07 million people. The birth rate has been decreased by 0.37. (compared with the target of 0.4.). The primary birth rate is 1.739%, while the population growth rate is 1.44%.

The issue of children care has been paid more attention to. Indicators of mother and child health have been much improved. The infant mortality rate has been reduced to the same level as that commonly seen in the countries with 2-3 time higher per capita income. In 2003, the mortality rate among children below 1 year old was only 26., and the mortality rate among mothers nationwide is about 90/100,000. This rate in urban areas is often lower than in the mountainous, far and remote areas. However, in general these rates have been reduced everywhere in the country over the past 5 years. The average life expectancy in 2004 is about 71.3 years.

The anti-malnutrition program for children below 5 years old has been implemented in every province. The malnutrition rate among children below 5 years old, though beány still rather high according to the international standards, has been significantly reduced by the year 2003. This rate was respectively 31.9% in 2001, 28% in 2003 and 26.7% by the end of 2004. Efforts have been focused on building up children care models, such as the so-called model "children under the commune's and district's care", pre-school age education model, vocational training model, etc. The Action Program for Children has been vigorously implemented based on close co-ordination with social unions.

Education, information, consultation and supporting activities have been strengthened to help street children to return home and stabilize their life.

The movement of establishing the "Fund of Gratitude" has been promoted. Houses of gratitude (i.e. built for war invalids or martyr's families) have been built. Children of wounded and sick soldiers, families of martyrs and of those people remarkably

contributing to the country are always the first people to receive assistance and aids for living, learning and being given a job opportunity. At the same time, families beány entitled from special social policies have been encouraged to participate in doing business, continuing the tradition of being good exemplary citizens and revolutionary families. The program of gathering martyrs' tombs has been successfully implemented.

However, there are still some outstanding issues. In particular, the birth rate has not been reduced yet to the targeted level as specified in the National Assembly's Resolution at the beginning of the year¹⁸. Children protection and health care are still facing a lot of difficulties. There are still a lot of street children, especially in towns and cities. The fact that many children have contracted social evils is still a serious headache for the society (SRV, 2006).

2.7. Ensuring socio-economic development for ethnic minorities areas

There has been a lot of progress in the socio-economic development situation in the areas of ethnic minorities. The socio-economic under structure and living conditions of the ethnic minorities have been visibly improved. Great achievements of poverty reduction have been gained. The intellectual standards have been increased. Culture has been developed; especially traditional cultures of the minorities have been maintained and brought into play.

Projects that give direct support to poverty reduction have been operated effectively, contributing to improving the living standards of the ethnic minorities. These projects include: credit projects that lend money to poor households for developing their production; projects that guide the poor the way how to do business; projects on agricultural and forestry extension; projects that establish poverty reduction models for poor communes not being covered by Program 135; projects that construct infrastructure, support production activities, develop trades, stabilize the people's living conditions, build up new economic zones, call for permanent agriculture and permanent settlement, and train communal staff in the areas not being included in Program 135.

Thanks to the Government's policy of poverty reduction and effective investments, the rate of poor households in mountainous and ethnic areas have been notably reduced.

Table 10: Rate of poor households in mountainous and ethnic areas

| Region | Rate of poor households in 2001 (%) | Number of poor households by the end of 2003 (estimated) | | Rate of reduction (%) |
|--------------------------------|-------------------------------------|--|--------|-----------------------|
| | | Amount (1,000 households) | Rate % | |
| 1. North eastern mountains | 22.35 | 235 | 13.8 | 8.55 |
| 2. North western mountains | 33.95 | 82 | 18.7 | 15.25 |
| 3. Former 4 th zone | 25.64 | 350 | 15.7 | 9.94 |
| 4. Central Highlands | 24.9 | 150 | 17.4 | 7.5 |

Source: MOLISA in the summing up meeting on 3 October 2003

Many mechanisms and policies on socio-economic development on the regional basis have been issued to improve the living standards of ethnic minorities, such as Decision No. 168/2001/QD-TTg, 173/2001/QD-TTg, 186/2001/QD-TTg on orientations for socio-economic development of the Central Highlands, the Mekong river delta and 6 extremely disadvantaged provinces in the north eastern mountainous areas; Decision No. 120/2003/QD-TTg regarding typical policies on socio-economic development for communes along the border line between China and Vietnam; Decision No. 134/2004/QD-TTg dated 20 July 2004 regarding the policy of assistance in productive land, residential land, housing and domestic water supply for households of ethnic minorities and poor living conditions.

In 2004, the Government invested to build infrastructure for 2,374 extremely disadvantaged communes in 355 districts of 49 provinces, more than 400 centres for groups of communes, and provide training for more than 5,000 communal staff from communes, villages, hamlets, etc.

So far, the technical infrastructure in the areas of ethnic minorities has been notably improved and initially satisfied the production requirements as well as facilitates the Libiny conditions of the ethnic minorities (MOLISA, 2005).

The national electricity network has been rapidly developed, contributing to promotion and development of production, business activities and increase of physical and mental conditions of the ethnic minorities. 100% of towns and provincial capital towns, 98% of districts and 64% of communes have had access to the national electricity network. In addition, there are also small and very small power sources, such as wind power, solar cells, etc. By 2003, more than 60% of households in the mountainous and ethnic areas had electricity.

The system of irrigation works has been developed in the mountainous and ethnic areas, ensuring irrigation and drainage services for more than 60% of cultivated land. Large irrigation works have been combined with hydropower plants, such as Hoa Binh, Yaly, Tri An, Song Rac, etc. Some medium scale irrigation works combining irrigation/drainage with hydropower or domestic water supply purposes have been built.

The system of post and telecommunication has reached many isolated and repote villages. The telephone system has reached all the provinces, districts and critical places in the mountainous and ethnic areas. So far, more than 70% of communes have had access to telephone services. Many provinces in the mountainous areas have quite large coverage of telephone services, e.g. 89% in Thai Nguyen, 82% in Dak Lak, Binh Phuoc. The post network has also been strengthened and rapidly developed. More than 80% of very disadvantaged communes have had communal cultural post office that initially satisfies the needs of people of ethnic minorities.

The market system in the mountainous and ethnic areas has been quickly developed, being doubled during the period 1994 to 2003. In the Central Highlands, there are totally 203 markets, and in the northern areas there are 1,190 markets. Most of the markets are

permanent structures, which are combined with post office, cultural centre, agricultural and forestry extension centre. These places are not only for goods exchange but also for cultural exchange among the ethnic minorities.

In addition to the rapid development of infrastructure serving production and the life of the ethnic minorities, the social under structure has also been invested, for example education and health care. By combining various sources of capital, the education sector has worked with the provinces to improve physical and material bases for training institutions, creating conditions to ensure quality of teaching and learning.

The school and class system has been built and strengthened: So far in the mountainous and ethnic areas, all the communes have had primary schools. In the remote villages, which are far from the centre, there are also classes. Most of communes and groups of communes have had secondary schools. Each district has at least 1 elementary secondary school, apart from people founded semi-boarding schools and boarding schools in the groups of communes. Apart from the public schools, the Government also invested to build a system of boarding schools for ethnic minorities from the central to the local level. The system of universities, colleges and high schools and vocational schools has been strengthened and furnished with necessary facilities and equipment.

The medical infrastructure system in the mountainous and ethnic areas has been strengthened, built up and developed. Districts all have medical centres. 93.5% of communes in the mountainous, isolated and remote areas have medical stations, of which 83.24% of stations have been strengthened. 100% of the stations have enough water and electricity, being furnished with medicine and tools needed for initial health care for the ethnic minorities.

The land issue has been paid attention to and for the Khmer and aboriginal ethnic minorities in the Central Highlands.

Health care, education and cultural development for the ethnic minorities have been paid attention to. Audio programs in languages of the ethnic minorities have reached many ethnic minorities in the isolated and remote areas.

However, the living conditions of the ethnic minorities are still difficult; infrastructure in the isolated, remote areas is still poor. Access to essential services such as health care, education and culture as well as technical advances and information to serve production and the people's life is still limited. The intellectual standards of the ethnic people are rather low, production practices are backward, causing obstacles to the socioeconomic development of the areas (MOLISA, 2006).

2.8. Information, culture, physical education and sports

Information and culture: Efforts have been made to serve the political tasks given by the Communist Party and the Government. Propaganda has been done well for the elections to the People's Councils, the semicentenary day of Dien Bien Phu Victory, the Hanoi Cultural Day in Dien Bien, and Tay Bac Cultural Days in Hanoi. Cultural exchange has been promoted through cultural days and festivals of different minorities in the northwest, the central region and the southwest.

The movement of "Entire people unite to build a cultural life" has mobilized all the resources and included smaller movements such as: Good actions by good people; Remember the water source when drinking; Repayment in kind; Establishment of Cultural families, cultural villages and civilized living quarter; and Entire people unite to build a new life in the residential areas. Many provinces and cities have pioneering in the movement "Good leaves cover up the bad", which aims to help people in the flood or disaster prone areas, and contribute to various funds. The establishment of the Fund for Gratitude has also been supported. For example, in Quang Ngai, people contributed nearly VND 12 billion to build or rehabilitate houses for gratitude. In Binh Dinh, the people's contribution for the same purpose was more than VND 5 billion, Tay Ninh - VND 4 billion. In 2002, Hai Duong province could build 25 houses for gratitude. In Ca Mau province, from 1999 to 2002, VND 21.1 billion were contributed to build 1,400 houses for gratitude. People in Ninh Binh province contributed VND 840 million and built or rehabilitated 58 houses for gratitude. This number in Gia Lai was VND 190 million.

People in Phu Tho province contributed to rehabilitate 109 houses for gratitude and grew up 532 gardens as presents to the Vietnam heroic mothers and families being entitled to the social special policies.

However, these movements are not yet fully effective and intensive. There are still overlaps in the content of these movements with other movements in the same province, which have led to ineffective and confusing guidance by the local authorities (SRV, 2006).

Management and restoration of historical sites are being continued¹⁹. Many sites have been upgraded, especially the ones of the national importance.

Broadcasting, television and the press: Broadcasting and television have become tools for the Communist Party and the Government in the sense that they have timely reflected major political events, identified key information for management activities and socioeconomic

development. A number of radio stations have been completed to cover depressive and mountainous areas. The audio program in 8 ethnic languages has been refined. Existing programs have been re-arranged to improve the broadcasting quality. Press activities have been strengthened in terms of quantity, and have been improved in the content and layout. There have been more journalists, who have mature political knowledge, ideology and professional skills. However, some aspects of press activities are still defective, for example, failure to timely reflect wrong actions which are against the Communist Party's policies and the State law. Some information is not precise, far from the reality that affects the foreign economic activities.

Physical education and sports: Many talents have been detected through massive sports movements. Physical education in schools has had good quantitative and qualitative changes. Attention has been paid to training and examination of athlete's health conditions of selected teams. The policy of socialization in physical education and sports is being pursued. Many stadiums, playgrounds and national sports training centres have been upgraded (SRV, 2005).

3. Factors Contribute to Fast Poverty Reduction

This section aims to make a first attempt to explain why poverty reduction in Vietnam has been so rapid and so sustained over a long period of eleven years. Rapid economic growth and the pro-poor and equitable pattern of growth are arguably the main drivers of Vietnam's impressive achievements in reducing poverty. Digging deeper, the rate and pattern of growth are explained by a number of factors, which in particular include market-oriented reforms, greater geographic and occupational mobility, and progressive and pro-poor redistributive policies that have taken place since Vietnam embarked on the Doi Moi course.

3.1. Reform-Induced Rapid Economic Growth

Accelerated domestic reforms, the resultant large flows of FDI and ODA, and more favorable external conditions have reinforced each other to help Vietnam achieve relatively rapid and sustained growth over a long period since the early 1990s. Indeed, with average GDP and per capita GDP growth rates of 7.7% and 6.2% respectively over the period 1993-2004, Vietnam is considered to be one of the best performers in the world in terms of economic growth. Rapid economic growth is arguably the main driver of fast poverty reduction in Vietnam

Behind the whole progress in rapid economic growth and fast poverty reduction in Viet Nam has been a series of economic reforms in the course of Doi Moi. First, the political Resolution 10 adopted in April 1988 has had a profound, long-run effect on poverty by promoting a private economy in agriculture, on which over seventy percent of population depends. Moreover, under the authority of the Resolution 10, the distribution of lands was relatively equal relative to the size of the farming household. Food production, which was essential for poverty reduction over the 1990's, increased from 19.5 million tons in 1998 to 21.7 million tons in 1991, 32.1 in 2001 and 39.5 million tons in 2005. Such a rate of growth in food production was unprecedented in the country's recent history. This has helped Vietnam to reduce food poverty substantially, particularly among the Kinh-Hoa group.

The Land Law of 1993 has also played a substantive role in reducing poverty. Thanks to the Land Law, the Land Use Rights (LUR) can now be legally transferred, exchanged, mortgaged and inherited. According to Ravallion and van de Walle (2006), there is evidence that land allocation has become more efficient since the 1993 Land Law. Even though many policy makers are concerned about increasing rural landlessness and the greater poverty rate among the new rural landless, Ravallion and van de Walle “find no sign that rising landlessness has undermined the gains to the poor from the relatively equitable assignment of land-use rights achieved at the time of de-collectivization.”.

The Enterprise Law, which came into effect in January 2000, is believed to have led to massive registration of new enterprises. According to MPI statistics, over the four-year period 2001-2004, about 102,000 new enterprises with over VND 187 trillions in capital were registered. Partly driven by Government’s commitment to integrate into the world economy, the business environment has gradually improved. In 2003–2004, a set of important legal documents were issued that included the Decree on the guidelines for the implementation of the revised Law of Foreign Investment, the Decree on the conversion of foreign investment enterprises to joint stock companies, and other legal document changing administrative procedures with a view to gradual application of world trade norms in Viet Nam.

The abolition of the state monopoly on trade as a result of trade reform and opening-up the economy since 2000, combined with alignment of the official exchange rate with its market parallel and deeper integration into the world economy all served to boost exports of Viet Nam’s agricultural and other labour-intensive products. The country’s intensified efforts to integrate deeper into the world since 2000 contributed further positive outcomes in terms of economic growth and poverty reduction. The implementation of the Viet Nam-US Bilateral Trade Agreement (BTA) in December 2001 has enhanced the momentum of the expanding economy of Viet Nam. The employment in foreign investment enterprises increased by 16.5% in 2002, 24.5% in 2003 and 23.5% in 2004. The employment growth in enterprises that export goods to the US has been even more rapid, growing at 17.8% in 2002, 32.1% in 2003, and 37.5% in 2004 (Agency for

Foreign Investment and STAR Project, 2005). The impact of the BTA is strong not only on exports, but also on the flow of investment in Viet Nam

Thanks to these accelerated economic reforms, the flows of foreign direct investment (FDI) have been growing in recent years. The total capital of all FDI enterprises operating at the end of September 2004 is about \$26 billion and is an important component of export and growth. FDI enterprises offer large amount of good employment [According to Enterprise Survey (GSO, 2004)]. The competition between Asian countries and between Viet Nam's provinces for the inflow of FDI has been a factor in driving public administration reform (Malesky 2004). Vietnam's commitments to market oriented reform and its impressive achievements in economic growth and poverty reduction have resulted in substantial increases in overseas development assistance. Foreign governments and international organizations have supported the reforms in Viet Nam and committed over twenty billion of US dollars of Official Development Assistance (ODA). From 1993 to 2004, over \$14 billion of ODA has been disbursed, out of total commitments of nearly USD 29 billion (Source: www.mpi.gov.vn). The ODA funds have been very helping not only in developing infrastructure, but also in capacity building, improving the system of public administration and further improvement of investment environment.

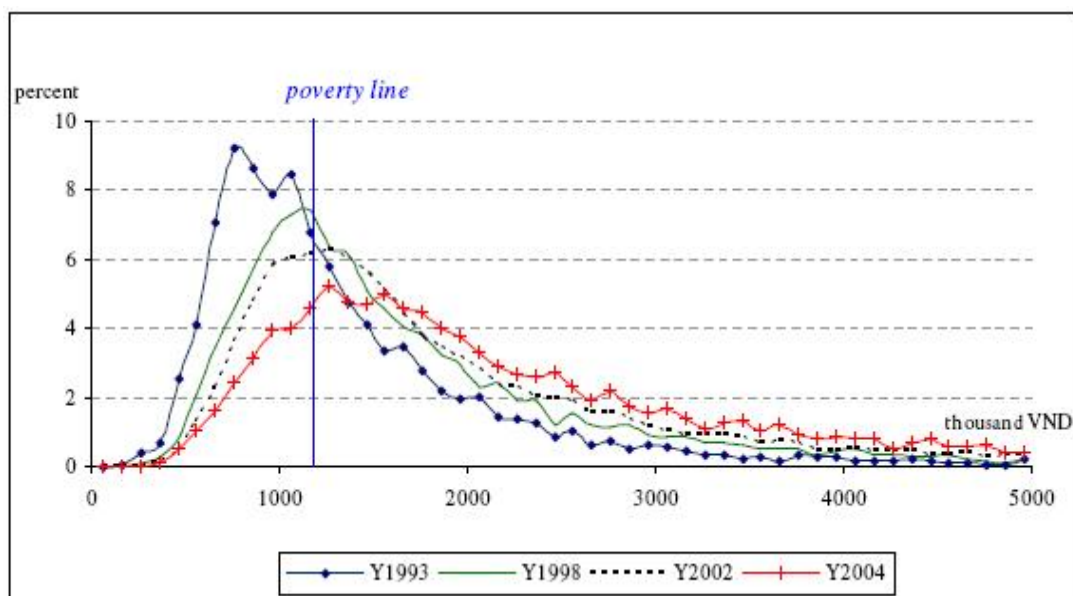
3.2. Pro-poor Pattern of Growth

International experience suggests that economic growth does not always lead to poverty reduction. There are cases 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 (Pasha and Palanivel 2004).

Therefore, a relatively strong association between rapid economic growth and fast poverty reduction, implying a strongly pro-poor pattern of growth in Vietnam is widely considered to be a great success. The growth elasticity of poverty reduction, a widely used measure of connection between economic growth and poverty reduction, is estimated at 0.95 for 1993-1998 and 1.32 for 1998-2004 periods (see Appendix 1 for more details), and can be considered as highly pro-poor pattern of growth in Vietnam as compared to other

the 30-year experience in Asian countries (See Table 3 in Pasha and Palanivel, 2004). The direct and most important reason for the pro-poor pattern of growth is the stability of the income distribution as measured by the consumption-based Gini coefficients, which is moderate if compared to that of other countries. This consistently moderate inequality in its turn can partly be explained by the combination of the structure of livelihoods for the bulk of the poor population (that is, largely agriculture-based) and the relatively even land distribution that has meant that most Vietnamese farmers have possessed land assets in the recent past. There are also other factors explaining the pro-poor pattern of growth. For example, in Figure 5, high distribution density at the left side of the poverty line indicates that in 1993 there were many poor households whose expenditures were just short of the poverty line. Had there been less poor households whose incomes had just been below the poverty line, the effect of the growth would have not been so strong.

Fig.6: Distribution of Per Capita Expenditures
(Money values are in January 1993 price)



Sources: GSO, Household Surveys to 2004

There have been also other important factors that explain the stability of income distribution as well as the pro-poor pattern of growth. These factors have direct policy relevance and therefore will be treated at greater length in the following sections.

Investigating the changes in the growth elasticity of poverty reduction reveals patterns of interest to future policymaking: a one percent increase in GDP per capita has led to drop in poverty rate by 0.55 and 0.49 percentage points for the two sub-periods 1993-1998 and 1998-2004 respectively, indicating that over time a higher rate of growth in GDP per capita is required to reduce the poverty rate by one percentage point. This in turn confirms a well-established fact that the fight against poverty becomes harder at lower incidences of poverty.

3.3. Pro-poor Public Spending and Investments in Infrastructure

Public spending is an important instrument of the Government to achieve objectives it sets. Data suggest that public spending in Vietnam is generally progressive and one factor that support growth to be more pro-poor and developmentally inclusive. The pro-poor pattern of public spending is evident from regional data as presented in Table 6 and provincial data as graphed in Figure 13, which both show a positive association between poverty rates and net transfers across regions or provinces in Vietnam (World Bank 2004). The relatively prosperous regions are making contribution and the poor regions are consistently receiving funds from Central government. The transfers are significant for some provinces and regions. In particular, for the North West, the per capita transfer in 2003 and 2004 are as much as two thirds of the poverty line. The Central Highlands has the second highest per capita transfer in 2002 and 2003. The significance of this transfer during the two years prior to the 2004 survey (which shows an acceleration of poverty reduction in this region) may have been an explanatory factor behind the progress in poverty reduction of this region.

Table 11: Budget transfers⁹ per capita 1999-2004 by regions

| Regions | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|--------------------------|-------|-------|-------|-------|-------|-------|
| Red River Delta | -598 | -663 | -733 | 894 | -945 | -1150 |
| North East | 196 | 270 | 377 | 446 | 645 | 662 |
| North West | 453 | 548 | 730 | 822 | 1425 | 1430 |
| North Central | 77 | 241 | 330 | 330 | 306 | 271 |
| South Central | -121 | -13 | -44 | -179 | -367 | -142 |
| Central Highlands | 217 | 334 | 505 | 622 | 659 | 626 |
| South East | -3243 | -4290 | -4529 | -4933 | -5699 | -5676 |

Source: GSO

Together with large and progressive (and pro-poor) inter-provincial transfers, redistribution at the household level also appears to have been pro-poor. A most recent study, which is presented in Hansen and Le Dang Trung 2006, carries out an incidence analysis of social transfers which are defined to include social insurance, social assistance and education fee exemptions, using the household surveys 2002 and 2004 VHLSS and finds that the absolute value of the transfers mostly benefit the poorest quintile (although also the richest quintiles). Results of their analysis indicate that the social transfers had sizable effects on the poverty levels in 2002 and 2004 and, furthermore, provided significant protection against falling into poverty.

The education sector has received a high and increasing share in public spending: the share of the budget spent on education rose from 14.0% in 1994 to 18% in 2005, reaching 5.6% of GDP, higher than the average level of Asia (SRV, 2006). And it is set to grow more; government targets suggest that 20% of the budget expenditure in 2010 should be spent on education. Public spending on education, particularly for primary schooling is progressive in the sense that poorer households receive larger share of the subsidy than richer households (World Bank 2005). Spending on primary and lower secondary school reached 53% of total educational expenditure (Vu Hoang Dat *et al.*, 2006). ODA projects in education and training concentrated mainly on basic education (primary, lower

secondary and upper secondary school). Targets for education and training development were clearly stated in the Development Strategy for Training and Education 2001-2010; the National Action Plan of Education for All 2003-2015; the National Targeted Program on Education and Training 2001-2010; the Five Year and annual Socio-Economic Development Plans; and the National Assembly resolutions on reforming textbooks and universal lower secondary education.

The government consistently pursues the “education for all” policy, particularly universal primary education. Policies have also been implemented to assure equal access to education, especially for ethnic minority children and children living in disadvantageous socio-economic conditions, giving priority to disadvantaged regions through special programs.

The Ministry of Education and Training has experimented with alternative primary school models appropriate to the economic conditions of the difficult regions. The Government also issued education state bonds to assist mountainous provinces, the Central Highlands and other poor provinces to eliminate three-shift schools and replace temporary classrooms in the year 2005 (SRV, 2005).

The data from household surveys also revealed that health insurance coverage has increased substantially across income groups, and an active redistribution policy through the provision of free health cards in this area is particularly pro-poor: the coverage for the poorest quintile (or poor people, given the poverty rate of 19.5% in 2004) has doubled to make it the second highest coverage among all income groups. This is particularly striking, as health shocks are widely believed to be one of major causes of poverty.

Analysing panel data of the latest two household surveys VHLSS 2002 and VHLSS 2004, Vu Hoang Dat et al. 2006 in particular finds that an increase in the number of outpatient health treatment reduces household’s chance of escaping poverty.

Table12. Health insurance and free health care card – expenditure quintiles

| | 1998 | 2004 | 2004 |
|---------------------|--|--|--|
| Regions | Percentage of people having health insurance | Percentage of people having health insurance | Percentage of people having health insurance plus free healthcare card |
| Poorest | 6.22 | 22.69 | 41.81 |
| Near poorest | 9.67 | 23.22 | 30.43 |
| Middle | 13.59 | 26.15 | 31.37 |
| Near richest | 20.18 | 34.41 | 38.22 |
| Richest | 28.99 | 44.12 | 46.7 |
| Total | 15.73 | 29.53 | 37.56 |

Source: Estimates from household surveys VLSS 1998 and VHLSS 2004

Considerable investment in infrastructure is widely believed to have contributed to raising people’s welfare and to reducing poverty. The lack of infrastructure is recognized as a major reason for the high rate of poverty in the rural and remote isolated localities, and good efforts have been made in this area to promote more inclusive development in Viet Nam, rather than leaving part of population disconnected from the mainstream of economic growth. Two types of infrastructure have been developed to maximize the network effect: (i) large-scale infrastructure with a view to creating the broader foundations of integration with markets and job creation, embodied in national roads, bridges, ports and electricity transmission lines; and (ii) small-scale infrastructure in the poorest communes to improve local social and physical infrastructure.

International donors, such as the Government of Japan, the World Bank, the ADB, the Government of Australia, and others have been providing ODA funds for large-scale infrastructure projects. The Government of Viet Nam has been providing substantial resources through a national targeted program for especially disadvantaged communes (often referred to as Program 135) which provides basic infrastructure in these communes. These investments include electrification of villages, development of roads usable by

vehicles, building schools and health clinics, small-scale irrigation, market places, clean water supply and upgrading roads that link poor regions and poor communes with more developed centers. From 1999 to 2004, public investment of around VND 8.9 trillion was disbursed for communes included on the list of disadvantaged communes. By the end of 2004, using different sources (ODA, private investments, contributions of individuals, organizations and beneficiaries etc.), these communes managed to complete and begin operating more than 22,000 infrastructure projects. Infrastructure in the disadvantaged communes has improved substantially as a result. Program reports suggest that 90% disadvantaged communes have access to electric power, a broadcasting station, primary school, nursery school and kindergarten, smallscale irrigation; 97% communes have vehicle-passable roads to the commune centre; 100% communes have health clinics; 100% districts have upper secondary schools (Committee of Ethnic Minorities and Mountainous Areas)

Results of econometric analysis of household survey VHLSS 2004 done by Le Thuc Duc et al. 2006 indicate that the availability of rural roads to communes is one of significant factors determining per capita expenditures in 2004. This is consistent with a number of earlier studies done on Viet Nam. The GRIPS Development Forum (2003) studies the impact of the Japan funded large scale infrastructures of National Highway No.5 and rehabilitation of Hai Phong Harbor and come to the conclusion that “development within the provinces of Hung Yen and Hai Duong where Highway No.5 extends, showed better results than the other provinces of the Northern area. The increase of income per capita is conspicuous, due to the diversification of agricultural products, the promotion of access to the large markets of Hanoi, the increase of foreign direct investments, advanced industrial structures.” Likewise “the rehabilitation of Hai Phong Harbor has contributed to the economic development of northern area of Viet Nam” and therefore has an impact on poverty reduction in the areas nearby.

An evaluation of a World Bank-funded rural road rehabilitation project in Viet Nam finds that the strongest positive impact was for the poorest households (van de Walle and Cratty 2002). In particular, the time savings to reach habitual places of destination were highly significant for the poorest 40% of households.” Pham, Rama, and Larsen (2004) conduct a systematic appraisal of the impact of the investment in large-scale infrastructures

made over the period from 1996 to 2000 in Viet Nam's Public Investment Program. Their results "show that spending one additional point of GDP in infrastructure has led to a proportionate reduction of the poverty rate by roughly 0.5 percent. The impact is larger in poorer provinces. Poverty alleviation impacts are stronger in the case of transport investments, and even more so in the case of water and sanitation investments. Investments in energy are likely to have less geographically concentrated poverty alleviation impacts." Most recently, using the panel dataset constructed from VHLSS 2002 and VHLSS 2004, Vu Hoang Dat et al. 2006 find that having access to a permanent road, a lower secondary school and extension services centre at the village level raised chance of households from ethnic minorities of escaping poverty while access to electricity at the household level, and to upper secondary school, health care centre and permanent road at the village level increased probability of escaping from poverty for Kinh-Hoa household.

Moreover, the merits of infrastructure may go well beyond what can be assessed after a short run. For Viet Nam, the insufficient connection of some parts of economy to the rest may result in longer term social isolation. This problem will not be solved by private market. Better provision of infrastructure will allow greater exchange of goods and services, information and culture between the North West, the Central Highlands with the other parts of economy. The long-run economic and social benefits are likely to be high, preventing an increase in regional and ethnic inequalities.

The State allocated a considerable amount of public funds totaling VND 21,000 billion to the Hunger Eradication and Poverty Reduction (HEPR) Program during the period 2001- 2005. This Program aimed to improve the access of the poor to credit and other production support services, as well as to basic social services. The Program's components on health and education subsidies for the poor have arguably contributed to the improvements in well-being of the poor (MOLISA-UNDP 2004). The Motherland Front and mass organisations such as Women Union, Farmers' Association, and Veterans' Association etc. also provided direct support to the poor. Although insignificant in absolute terms, this support has strengthened political and public support through accompanying communication activities, including those through the media.

3.4. Increased Geographic and Occupational Labour Mobility

Greater geographic mobility has been an important achievement of the Doi Moi reforms, not simply from an economic perspective. More Vietnamese have permission to go out of the country for work, to study, for family reunification, and other reasons. The economic impact of the emigration is significant. For instance, the remittances from overseas Vietnamese have also been increasing steadily and are estimated at USD 2.6 billion in 2003 and USD 3.2 billion in 2004 (www.mpi.gov.vn/showTinvan.aspx?lang=4&ma_tinvan=10052). Though important in terms of contribution to the country's GDP as well as other benefits, the direct poverty impact of international migration appears to have been negligible. Indeed, our analysis of the VHLSS 2004 finds that average overseas remittances per household for the poorest expenditure quintile (they can be classified as the poor, given the poverty rate of 19.5% in 2004) was as low as VND 99,000 as opposed to VND 3,153,000 for the richest group.

On the contrary, a number of studies confirm the significant importance of internal migration for poverty reduction. Dang Nguyen Anh (2005) suggests it “represents a livelihood strategy for most rural households. In this way, the flow of remittances is not a random by-product of individual migration, but an integral part of a family strategy behind migration - a livelihood strategy for poor people”. Nguyen Thu Phuong et al. 2006 finds that migrants tend to move from provinces with low GDP per capita levels, low Human Development Index (HDI) and high underemployment rates to provinces with high GDP per capita levels, high HDI and low underemployment rates.

This suggests that internal migration is likely to be an important channel for achieving more balanced regional development. The remittances sent by internal migrants' are often significant for the households of origin. A recent survey in poorer provinces of Thanh Hoa and Nghe an has confirmed the importance of migration for the livelihood of the sending households and community (Nguyen Thang, 2005). In particular, 85% of respondents said that there had been many people in their community working away from home (mostly in other provinces) and 36% of them said that migration had helped to substantially raise incomes of the sending households.

Table13. Net migration flows from respectively to the most important origin and Destination areas, 2002-2004

| Province | Net migration (persons) 2002-2004 | Migration rank 2002-2004 | Migration rate (%)* | GDP per capita** ('000 VND/head) 2002 | Rank of GDP per capita 2002 | Rank of HDI 2002 | Under-employment rate (%) 2002 | Rank of under-employment 2002 |
|----------------------------|-----------------------------------|--------------------------|---------------------|---------------------------------------|-----------------------------|------------------|--------------------------------|-------------------------------|
| <i>5 most destinations</i> | | | | | | | | |
| Ho Chi Minh | 210,237 | 1 | 3.84 | 11,621 | 2 | 3 | 6.48 | 61 |
| Hanoi | 148,063 | 2 | 5.05 | 8,410 | 3 | 2 | 22.63 | 50 |
| Binh Duong | 40,761 | 3 | 5.18 | 6,643 | 4 | 6 | 17.55 | 57 |
| Quang Ninh | 5,248 | 4 | 0.5 | 4,897 | 10 | 10 | 17.64 | 56 |
| Da Nang | 3,941 | 5 | 0.54 | 5,916 | 6 | 4 | 15.77 | 58 |
| <i>5 most origins</i> | | | | | | | | |
| Thanh Hoa | -37,848 | 64 | -1.07 | 2,579 | 41 | 35 | 79.62 | 5 |
| Nam Dinh | -27,482 | 63 | -1.42 | 2,653 | 38 | 17 | 73.06 | 12 |
| Thai Binh | -23,350 | 62 | -1.28 | 2,809 | 32 | 12 | 79.89 | 4 |
| Ha Tay | -19,723 | 61 | -0.8 | 2,771 | 33 | 24 | 31.03 | 43 |
| Quang Nam | -17,455 | 60 | -1.23 | 2,525 | 42 | 25 | 71.53 | 17 |

Source: GSO (2006) cited in Nguyen Thu Phuong *et al.* 2006

Migration and associated total remittances may provide an explanation for a loose linkage between regions' economic growth and the change in poverty incidence. In fact, some regions do not perform very well economically, but have reduced the incidence of poverty more than the economic development data would imply.

4. Sustaining Fast Poverty Reduction: Challenges Ahead and Ways Forward

Vietnam's five-year plan 2006-2010 sets ambitious objectives "... to boost the industrialization and modernization process, avoid the risk of "lagging behind", bring Vietnam out of the less-developing situation and low income group, together with the implementation of the MDGs according to international commitments.(SRV, 2006). These objectives are translated into a set of quantitative targets including annual average growth

rate of 7.5-8% and higher, creation of jobs for over 8 million labourers over the five years, GDP per capita of USD 1,050-1,100, universal lower secondary school, forest coverage at 42 - 43%, access to clean water for 95% of urban population and 75% of rural population at the end year. It particularly sets an ambitious target of bringing down the poverty rate (according to the new national poverty line, which is equal to VND 200,000 per capita income in rural areas and VND 260,000 in urban areas (SRV, 2005)) from 22% in 2005 down to 10 – 11% by 2010, or in other words, halving it over the next five years (SRV, 2006). In short, it is envisaged that fast poverty reduction will continue to be based on rapid and sustainable economic growth.

Although Vietnam has achieved fast poverty reduction over more than a decade, sustaining these impressive achievements in the years to come is a challenging task. There are some reasons to believe that the “poverty story” over the next 5 years may not be quite the same as what has happened up until now. This in turn implies that appropriate and innovative policy measures are needed if Vietnam is to achieve the ambitious targets set on poverty reduction.

4.1. Improving the Quality of Growth and Enhancing the Participation of the Poor in the Growth Process

Distribution of households around the poverty line, which, as mentioned earlier, has been an important factor explaining a relatively strong impact on poverty reduction of economic growth in recent years has changed substantially. Figure 12 shows that if in 1998, there were many poor people whose expenditures were very close to the poverty line, there were less in 2004. Numerically, in 1998, the percentage of poor people who are short by 10% and 5% from the poverty line was 8.3% and 4.2% respectively. The comparable figures for 2004 were 4.8% and 2.4%. This may imply that in the years to come, the poverty reducing effect of economic growth may become smaller than it has been until very recently. In other words, a higher growth rate is required to reduce each percentage point in poverty, as was pointed out earlier in the report. Of equal importance, policies and interventions should aim to enhance the participation of the poor and low income in the growth progress.

As long as economic growth continues to be a main driver of poverty reduction and of helping the country as the whole graduate from the list of poorest countries as set out in the SEDP 2006-2010, sustaining high growth rate is critical. As the current rate of investment (or alternatively, the rate of foregone consumption) of 40% GDP (SRV, 2006) is already very high by international standards and therefore difficult to sustain, a main challenge in the promotion of rapid growth-based poverty reduction lies in raising the quality of investment in particular and the efficiency of the economy in general. Special attention should be given to state investment, as its efficiency is officially acknowledged as low (SRV, 2006), while it has been so far the most important source of investment in Vietnam, accounting for more than half of total investment in the economy since 1998. Implementing market-oriented reforms with emphasis on the development of the private sector as mapped out in the SEDP 2006-2010 is clearly a way to sustain rapid growth and associated fast poverty reduction. The acceleration of SOE reforms would also help, as these would improve resource allocation in favour of more efficient and dynamic private firms.

The poverty reducing effect of economic growth to a large extent depends on the degree of participation of the poor in the growth process. Evidence suggests that there is scope to improve it. First, this can be done through the creation of jobs (and good, decent jobs) and, as pointed out in earlier parts of this report, overcoming labour market imperfections towards better geographic and occupational mobility to increase the chance of the poor and people from poorer provinces to engage in wage employment. The SEDP 2006-2010 specifies a number of measures in this regard, including private sector development: “non-state economic sectors remain the most attractive which have employed approximately 91% of the labor force or accounted for 90% of new employment in the entire economy”; The SEDP also proposes improving geographic labour mobility: “Prepare appropriate master plans and policies to cope with population immigration from rural to urban areas.... Build an appropriate migration policy to speed up labor distribution among regions, assist (im) migrants to have access to social services”; and facilitating further shift towards higher share of wage employment and better paid jobs “Continue labor structural shift with reduction of agriculture, forestry and fishery labor to 50% in 2010, increase of industry and construction labor to at least 23 – 24% and increase service-commerce labour to at least 26 – 27 %”.

As long as agriculture is still the main source of income of the majority of poor households and agricultural growth is critical to poverty reduction (Vu Hoang Dat et al., 2006) , it is important to achieve the target of agricultural growth rate of 3-3.2% as set out in SEDP 2006-2010. The State should give priority to agricultural R&D and extension services to promote higher yields, which are known to be the most important source of income growth for the poor (Minot *et al.*, 2006). Within the agriculture sector, poor people's access to new market opportunities and to higher value and higher margin activities is primarily constrained by lack of skills, knowledge, and social capital, and also high dependency ratio, particularly in female headed households (ILSSA-ADB, 2003). However, evidence suggests that there may also be innovative measures to help the rural poor to better participate in and benefit from the growth process. For example, a study on the tea value chain under the Project "Making Markets Work Better for the Poor" (2004) (ADB MP4, 2004) finds that low product quality proved to be a major constraint for farmers to move out of poverty, once the market is there and producers, who are better coordinated with processors through wage or contractual relations, were significantly better off than those relying solely on market-based transactions. These indicate that the development and strengthening of partnerships between all players, both domestically and overseas to enhance the product quality in every stage of the chain, and the removal of institutional and information constraints would help both growth and poverty reduction. As another example, Moustier et al (2005) pointed out that poor farmers are generally excluded from supermarket development due to the requirements in quality assurance and large-scale supply, as well as delays in payment. A way of helping them to be inclusive is turning them into indirect suppliers of supermarkets through belonging to (or contracting with) farmers' associations supplying supermarkets.

4.2. Improving Insurance and Social Protection System

This seemingly old question has come up even stronger in recent years. Figure 12 presented earlier indicates, the income distribution in 2004 is such that there were more near poor people located in the right side of the poverty line than poor people located in its left neighbourhood, which is very different from the 1998 distribution of incomes. This may

imply that protecting the near poor from falling into poverty would be critical to poverty reduction in the short to the medium term.

Together with economic growth and intensified international integration, the country is also facing numerous risks, explicitly set out in the 2006-2010 Socio-Economic Development Plan “Inside the country, new epidemic diseases appeared (such as SARS and Avian (bird) flu, natural disasters, complex changes of weather and climate, etc. Internationally, the complexity of the world’s politics and security, the slow recovery of the world economy, the changes of prices in the world market, natural catastrophes, etc., have created numerous difficulties for the fulfillment of the socio-economic development tasks.” (SRV, 2006).

WTO accession at the end of 2006 in particular is one of the biggest events in Vietnam, which is seen by some commentators as the start of the third round of reforms with far reaching economic and social implications for the country. While the benefits will clearly outweigh the costs at the aggregate level, which explains Vietnam’s strong determination to join the WTO, there are still a number of concerns about associated risks and social impacts. Numerous studies have pointed out to a number of areas that may be affected negatively. The so called “problem areas” may include production of sugar, soybean, maize, some kinds of livestock etc., on which livelihoods of many poor and near poor households heavily rely (Rama Martin and Sa Kim Le, 2005). Furthermore, there are also concerns about some adverse effects of the opening up of the banking sector whereby expected fiercer competition induced by foreign entry in various forms may force out weaker rural-based banks to lower margin segments, which may lead to the deterioration of banking services in rural areas. As the economy is further opened and integrated into the world system, it will be increasingly exposed to external shocks. Deeper integration does not only adversely affect inefficient sectors, but sometimes also produces undesirable outcomes for the exportable sectors. This has already been demonstrated very clearly from the case with coffee production: while a sharp price increase in most part of the 1990s helped many coffee growers escape poverty, the price drop in the late 1990s and the early 2000s pulled them back to poverty. This is a major cause of sluggish reduction in poverty in the Central Highlands between 1998 and 2002. Many poor in Central Highlands cannot participate in coffee production because they see it as “too risky” (ILSSA-ADB, 2005).

In this context, protecting the gains in poverty reduction and maintaining an equitable

Pattern of growth in the context of Vietnam's further integration into the world economy through better insurance and social protection systems is becoming increasingly important, and at the same time, challenging in the years to come. The SEDP 2006-2010 states "Develop insurance policies for agricultural production and farmers such as social insurance, natural disaster insurance, insurance against risks due to market and price fluctuation. Work out proper measures to release impacts of integration on agricultural and rural fields". An index-based flood insurance scheme to be piloted in the Mekong Delta in 2007-2009 would possibly be among the first attempts to introduce formal, market-based risk-management tools (World Bank, 2006). The social protection system (ADB, 2001) is still in transition from the old model which was set up under central planning to the one that more conforms to the requirements of a market economy with the increasing importance of the non-state sector under the context of intensified international integration. In particular, as long as social insurance is concerned, low coverage and participation rates and financial non-sustainability of the system are identified as the key shortcomings (Nguyen Manh Cuong, 2006) (MOLISA, in 2005). To revamp the system, a number of suggestions have been made on further expansion of coverage to possibly include voluntary participation by workers in the informal sector and by farmers. Introduction of unemployment benefits or universal old-age pension system may also be considered in a longer term (Justino, 2005). Indeed, unemployment insurance and benefit and voluntary insurance are legalised for the first time in the Social Security Law passed by the National Assembly of Vietnam on 29 June 2006 and enforcement will take place from 2008 and 2009 respectively. While any further expansion of coverage towards universalism tends to be progressive, government subsidies are clearly needed to ensure adequate coverage of the poor and near poor by the social protection system (MOLISA, 2006). This again emphasises the role of public spending and more importantly, its progressive and pro-poor pattern for inclusive development. The model that is adopted for health insurance (mandatory for the wage-employed, voluntary for the better-off self employed and subsidized for the poor – but comparable service delivery for all) is one worth emulating in the development of pensions. Weeks *et al.* 2004 shows that the Government of Vietnam enjoys a fiscal position that allows it to expand existing poverty targeting programmes towards universal

schemes. Using Vietnam's macro data, they demonstrate that a universal old age pension is well within the fiscal resources of the government, if it is set at an appropriate level. An extension of the social safety net to workers retrenched because of enterprise reforms, though costly and not entirely equitable, is worth considering, given the need to deal with short-term negative effects of adjustments upon Vietnam's WTO accession. In general, universal systems of social protection could be both inclusive and fiscally sustainable if actuarial benchmarks were used. There is also an interesting suggestion of introducing a single social insurance number for all targeted benefits and social insurance programs, which deserves consideration, as it can be considered as an important step towards universalism (World Bank 2006). It also reduces administration cost and importantly, improves the labour market efficiency and flexibility.

4.3. Accelerating of Poverty Reduction among Ethnic Minorities and in "Lagging Regions"

The persistently high incidence and depth of poverty (including food poverty) among ethnic minority groups against the background of overall fast economic growth and poverty reduction in its multiple dimensions has caused serious concerns in Vietnam. According to the MOLISA's forecast (MOLISA, 2005), by 2010, the poor in the ethnic minorities would constitute 50 percent of the total number of poor households in Vietnam. The SEDP 2006-2010 gives a high priority to improving welfare of ethnic minorities in Vietnam and specifies a number of measures including "Continue the implementation of the Program on Socio-economic Development of extremely disadvantaged communes (Program 135) in the 2006-2010 period, basically ensure that all communes have essential public works...Well perform the allocation of land and forest to individuals, households and organizations in ethnic and mountainous areas, especially to households of ethnic minorities. Effectively carry out the assistance policy on cultivation land, residential land, housing, and clean water for poor ethnic minority people..."

The process of poverty reduction in remote areas and for ethnic minorities requires a clear set of priority interventions. Increased focus on national programs targeted towards the pure minority communes, such as the new programme launched in January 2006 that covers all the mountainous and ethnic minority areas, appears highly warranted.

Furthermore, according to Swinkels and Turk 2006, access of ethnic minority people to basic services and outreach in credit provision and accessibility have been improved over recent years, but there are still problems in the access to land of different types, particularly the ability to use forestry land in a profitable manner. Introducing more unified control over forest land under the district and commune authorities, and measures to improve transparency and equity in the allocation of forest land and product usage rights are suggested as priority actions to enhance the participation of ethnic minorities in the growth process. Of equal importance, innovative measures and interventions are also needed, if considerable progress on reducing poverty among ethnic minorities is to be made. Therefore, further studies including social research may be needed to better understand specific characteristics and needs of ethnic minorities in a variety of forms, given the heterogeneity among 52 ethnic minority groups in Vietnam. These would help to come up with more innovative policy measures, beyond the area-based schemes being in operation, to better address needs of the most disadvantaged ethnic minority groups, properly taking into account their specific habits, customs and culture.

Acceleration of poverty reduction among ethnic minorities is expected to also reduce regional differences in poverty incidence, as it would help lagging regions with high percentage of ethnic minority people such as North East, North West and Central Highlands, to catch up with the best performing regions. However, there should also be policy measures and interventions to support other non-ethnic minority lagging regions with relatively high poverty incidence, e.g. North and South Central Coasts. A project on infrastructure development for communes with special difficulties in coastal and island areas is proposed in the Draft National Targeting Programme on Poverty Reduction 2006-2010 (MOLISA 2006). Other types of interventions would include, as mentioned earlier, the facilitation of the movement into wage employment, which is still very low in the lagging regions (Figure 14) and to improve geographic mobility of labour.

4.4. Avoiding the Emergence of New Forms of Poverty

A new challenge to poverty reduction in Viet Nam is the emergence of the new poor group. One of the causes is linked to the urbanisation process, which results in agricultural land being converted to other purposes. By 2005, land had been recovered

from over 100,000 households for the development of more than 190 industrial zones and clusters. CLIP&CIEM 2006 found that although over half of surveyed households felt that their situation had improved since land recovery, for around one third of displaced households land recovery causes severe economic disruption, particularly if all productive landholdings are recovered. Residence is disrupted, insufficient notice is given by the local authorities and family members do not have appropriate educational background or vocational skills to shift into new occupations. The scale of state support to displaced households appears to vary between provinces but is generally low. Furthermore, employment and retraining opportunities are not easily accessible by displaced households. A PPA in Da Nang found that urbanisation process created more opportunities for many people, but not for the poor, who instead face with turbulence and unfavourable changes in their life. In some cases, poor people who lost their stable livelihood turned to commercial sex work to earn a living. Finding a new dwelling and employment became the most critical preoccupation of the poor and the urbanization creates new poor areas. (ILSSA-ADB, 2003). Therefore, social impacts of urbanization should be carefully evaluated and properly taken into account in urban planning, which should work out adequate measures to help the affected. The move towards universalism of the social protection system as discussed above would also help to lessen the problem, once it arises.

In summary, sustaining poverty reduction over the short to medium term would require a combination of policy measures including acceleration of market oriented reforms and introducing modern governance to achieve higher efficiency and more rapid growth; revamping and strengthening social protection system to protect the poor and the vulnerable from adverse shocks in light of intensified international integration, enhancing progressive and pro-poor pattern of public spending, introducing more innovative measures to better target the specific needs of ethnic minorities, and also measures to avoid new forms of poverty.

III. Conclusion

The special circumstances prevailing in Vietnam (high development commitment; proven track record in macro-stability and poverty reduction) have contributed to the launching of a revised approach of donor support to development and poverty reduction. Already during the process of formulating the full Poverty Reduction, the use of partnership-based consultation and programming mechanisms have developed Vietnam into an international best practice case for joint policy dialogue. The World Bank has been the driving force behind that process and has shown a new, more cautious and less interventionist attitude towards a partner country that is striving to integrate into the world economy but remains sceptical with regard to standard solutions and foreign influence in general.

It remains to be seen whether the implementation of its Poverty Reduction will justify the credit which Vietnam has received from donors. The Poverty Reduction has to be regarded not just as another plan, but as a ‘living’ document that has to be improved and adjusted in the process of its implementation. Most probably there will be conflicts and differences in opinion among the Vietnamese and international stakeholders with regard to the implementation of the strategy. A policy dialogue and performance-based support on the basis of the Poverty Reduction as a country-owned strategy seems to be more promising, however, than traditional conditionality which has not proven to be very effective in the past.

Huge amounts of foreign investment and a remarkable foreign trade performance have proved the success of economic integration of the national economy. Foreign invested firms as well as export performance have generated a huge number of jobs and workers working for these two sectors are better off not only with job opportunities, but also by a higher wage rate brought back by these activities. The good performance of exports of agricultural products and labor-intensive industries in fact has contributed strongly to the improvement of the livelihoods of people, especially for people in rural areas. Although not very equally distributed among province/city, FDI has also contributed strongly to the poverty reduction in the areas where it comes in. The improvement of local business

environment and infrastructure is an important source to absorb the FDI, and hence to stimulate the economic development of local area, and to reduce the poverty of local areas.

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