


# Trade Liberalisation and Poverty Reduction in Vietnam

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## 1. INTRODUCTION

 OVER the past decade, the linkage between trade liberalisation and poverty has been one of the most contentious areas of debate within the development community. According to the critics, trade liberalisation leads to an increase in poverty and inequality because it creates the proliferation of low-wage jobs and higher food prices (International Forum on Globalization, 2001).<sup>1</sup> In contrast, the advocates of liberalisation often argue that trade liberalisation is an engine for economic growth, and economic growth triggered by freer flows of trade will make everyone better off (Warr, 2000; Dollar and Kraay, 2002, 2004; Winters, 2004).

As for the above debate, there is extensive literature that provides evidence either in one direction or the other (e.g. Raghav and Vani, 1998; Ahmad and Satya, 2004; Warr, 2006). Furthermore, among economists there has been disagreement about the right approach to analysing the linkage between trade and poverty, including the methodology to use, selection of the dataset and interpretation of the empirical results (Ravallion, 2001; Rodriguez and Rodrik, 2001; Howard and Edoardo, 2003). Therefore, outcomes from these literatures are at best ambiguous, and this calls for further research.

To date, a number of studies have investigated the linkages between trade and poverty in Vietnam (e.g. Irvin, 1997; Liu, 2001; Fritzen, 2002; Jenkins, 2004a; Nadvi et al., 2004; van de Walle and Cratty, 2004; Jensen and Tarp, 2005; Nguyen and Ezaki, 2005; Fujii and Roland-Holst, 2007). They show contrasting results. At one extreme, economic integration has a favourable impact on poverty and inequality (e.g. Nguyen and Ezaki, 2005). At the other extreme, results

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The authors wish to express their sincere thanks to the anonymous referees who made invaluable comments on an earlier version of the article. Any remaining errors are entirely their own.

<sup>1</sup> See also the website of the International Forum on Globalization (<http://www.ifg.org/store.htm>) for evidence.

showed that poverty rose following trade liberalisation due to a revenue-neutral lowering of trade taxes (see Jensen and Tarp, 2005). In between the two extremes, trade liberalisation was found to reduce poverty, but it was accompanied by rising inequality (Liu, 2001; Thoburn, 2004).

In addition, although economists have long been interested in the welfare effects of trade liberalisation, much of the empirical analysis has focused on changes in the wages and employment of different categories of workers. Relatively little has been researched into the effects of trade liberalisation on poverty reduction in Vietnam using a holistic approach. Such a knowledge gap in the literature provides rich opportunity for this research.

The objective of this research is to analyse the impacts of trade liberalisation on poverty, taking Vietnam as a case study. Some key cross-cutting issues and emerging trends regarding poverty and inequality are also highlighted. Thus, the study is guided by the following research questions:

- Who are the poor in Vietnam and what are their distinctive features?
- What are the impacts of trade liberalisation on poverty reduction?
- What are the channels through which the impact transmits to the poor?
- Which policy implications can be derived from our empirical findings?

## 2. POVERTY INDICATORS IN VIETNAM

### *a. Poverty Lines*

There are a series of poverty indicators in Vietnam. Among them, two poverty lines emerge as the most prevalent. One is applied by the General Statistics Office (GSO), and the other is employed by the Ministry of Labour, Invalids and Social Affairs (MOLISA), which is often referred to as the official or national poverty line.

The first poverty line is constructed by the level of expenditure.<sup>2</sup> It is based on an international method and calculated by the GSO with the World Bank's assistance. Within this measurement system, two poverty lines are estimated to identify hunger and poverty (Appendix A, Table A1). The 'food poverty' line is the amount of money needed to purchase the basket of food items that ensure the basic nutritional intakes of 2,100 calories per day per person (given the Vietnamese food consumption pattern). The 'general poverty' line is the amount of money needed to secure the basic food and non-food needs.<sup>3</sup>

<sup>2</sup> This method has been applied in the Vietnam Living Standard Surveys (VLSS) and is the most widely used.

<sup>3</sup> The difference between these two measurements is that the general poverty line includes non-food expenditures, which account for about one-third of the general poverty line. For a general survey, see World Bank (1999).

The second poverty line is constructed on the basis of household income (Appendix A, Table A2). It is used by government authorities in poverty alleviation activities and published officially by MOLISA. Accordingly, households are defined as poor if their per capita income falls below some conventional threshold. This threshold varies depending on whether the household is located in urban, rural or mountainous areas.

### *b. Poverty Measurement*

There are two poverty indices that have been widely used to calculate the poverty statistics in Vietnam. The first index is called the 'head-count index', which is simply the percentage of the population living beneath the poverty line. The second index is the 'poverty gap', which is the average difference between the expenditures of the poor and the poverty line, in percentage of the latter. Simply put, the former reflects the poverty rate, whereas the latter is an indication of the depth or severity of poverty.

## 3. THE POVERTY AND INEQUALITY SITUATION IN VIETNAM

### *a. The Poverty Situation*

Poverty indicators based on the expenditure method are presented in Table 1.<sup>4</sup> The left portion of the table shows the general poverty, which indicates the fraction of the population who cannot afford the consumption basket needed to secure 2,100 calories per day. The right portion of the table displays the food poverty, which indicates the fraction of the population that is too poor to afford the food part of this consumption basket, even if they were not to spend on non-food items at all.

An important feature is the decelerated pace of poverty reduction between 1998 and 2002. During the period 1993–98, poverty was falling at an average of more than four percentage points per year, while this figure was reduced by only two percentage points per year between 1998 and 2002. However, Vietnam regained the momentum during the period 2002–04.

Looking beyond the average, there are significant variations in the rates of poverty incidence and reduction when data are disaggregated into the most relevant dimensions. Poverty remains a largely rural phenomenon. Although the poverty rate in rural areas has been reduced significantly, rural residents still dominate the poor population. For example, in 1998 the headcount index of

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<sup>4</sup> Poverty indicators based on the income method are reported in Appendix A, Tables A3 and A4.

TABLE 1  
Poverty Situation in Vietnam<sup>a</sup>

<i>Dimensions</i>	<i>General Poverty</i>				<i>Food Poverty</i>			
	<i>1993</i>	<i>1998</i>	<i>2002</i>	<i>2004</i>	<i>1993</i>	<i>1998</i>	<i>2002</i>	<i>2004</i>
<b>Whole nation</b>	<b>58.1</b>	<b>37.4</b>	<b>28.9</b>	<b>19.5</b>	<b>24.9</b>	<b>15.0</b>	<b>10.9</b>	<b>6.9</b>
<i>Area dimension</i>								
Urban	25.1	9.2	6.6	3.6	7.9	2.5	1.9	0.8
Rural	66.4	45.5	35.6	25.0	29.1	18.6	13.6	9.7
<i>Ethnic dimension</i>								
Kinh and Chinese	53.9	31.1	23.1	13.5	20.8	10.6	6.5	4.0
Ethnic minorities	86.4	75.2	69.3	60.7	52.0	41.8	41.5	33.0
<i>Regional dimension</i>								
Northern Mountains	81.5	64.2	43.9	42.3	42.3	32.4	21.1	16.2
Red River Delta	62.7	29.3	22.4	24.2	24.2	8.5	5.3	2.3
North Central Coast	74.5	48.1	43.9	35.5	35.5	19.0	17.5	13.6
South Central Coast	42.7	34.5	25.2	22.8	22.8	15.9	9.0	8.1
Central Highlands	70.0	52.4	51.8	32.0	32.0	31.5	29.5	18.0
Southeast	37.0	12.2	10.6	11.7	11.7	5.0	3.0	1.5
Mekong Delta	47.1	36.9	23.4	17.7	17.7	11.3	6.5	4.0

Notes:

<sup>a</sup> According to the initial plan, the living standard in Vietnam was sampled every five years, including the Vietnam Living Standard Survey (VLSS) 1993, VLSS 1998, and the Vietnam Household Living Standard Survey (VHLSS) 2002. However, this schedule has been changed in the period 2002–10, and the living standard survey is now undertaken every two years. The latest available survey is VHLSS 2004.

Source: GSO and State Planning Committee (1994) and GSO (2000, 2004, 2006a).

poverty in rural areas was about five times higher than that of urban areas (45.5 per cent versus 9.2 per cent). The difference was five times and seven times in 2002 and 2004, respectively.

What is also of concern is that across all regions ethnic minorities have had substantially higher poverty rates and have experienced a much smaller reduction of poverty. In 2004, the poverty rate of ethnic minority people remained at almost the same level of poverty incidence seen by Kinh and Chinese in the early 1990s. The under-performance of poverty reduction by ethnic groups suggests that while economic gains were widespread, they hardly reached remote and isolated areas where ethnic minorities are concentrated. Consequently, ethnic people remain disadvantaged and left far behind.

Poverty incidence and reduction in Vietnam also have a strong spatial dimension. The poverty figures for the various regions prove important geographical correlations to poverty. Although poverty has been reduced across all regions, the speed of poverty reduction varies. Taken together, Northern Mountains, North Central Coast and Central Highlands have remained the poorest regions and displayed relatively modest performance in terms of poverty reduction.

TABLE 2  
Poverty Gap in Vietnam

	1993	1998	2002	2004
<b>Whole Vietnam</b>	<b>18.5</b>	<b>9.5</b>	<b>6.9</b>	<b>4.7</b>
<i>Area dimension</i>				
Urban	6.4	1.7	1.3	0.7
Rural	25.1	11.8	8.7	6.1
<i>Ethnic dimension</i>				
Kinh and Chinese	16.0	7.1	4.7	2.6
Ethnic minorities	34.7	24.2	22.8	19.2
<i>Regional dimension</i>				
Northern Mountains	29.0	18.5	12.3	9.5
Red River Delta	18.3	6.2	4.3	2.1
North Central Coast	24.7	11.8	10.6	8.1
South Central Coast	17.2	10.2	6.0	5.1
Central Highlands	26.3	19.1	16.7	10.6
Southeast	10.1	3.0	2.2	1.2
Mekong Delta	13.8	8.1	4.7	3.0

Source: GSO, Vietnam.

Table 2 provides a comprehensive picture of the poverty gap, an important indicator that reflects the depth of poverty. As mentioned earlier, the poverty gap is the difference between actual household expenditures and the poverty line, measured in percentage of the latter. As indicated in Table 2, the depth of poverty for the whole nation has been reduced substantially over the period 1993–2004. However, several important features emerge if the poverty gap is analysed at the disaggregate level. First, rural poverty has been deeper than urban poverty. Again, the poverty gap remains largely a rural phenomenon. Second, the relative stability of the poverty gap among ethnic minorities indicates that their distance to the poverty line is narrowing, but slowly. For example, the poverty gap for the Kinh and Chinese in 2004 was only 2.6 per cent. This means that a growth rate of 2 per cent per year would lift the average poor household out of poverty in a little more than one year. By the same reasoning, it would take a decade to obtain the same result in the case of the average poor ethnic household. Third, the poverty gap has a strong geographical dimension, being deeper in the Northern Mountain and Central Highland regions.

These features suggest that despite encouraging achievements in the reduction of the poverty gap in the whole nation, the pattern of the poverty gap remains almost unchanged. The persistently high poverty gap in rural areas, among ethnic minority population, and in high mountain regions has indeed posed important challenges to the Vietnamese government.

In order to assess the degree of poverty in Vietnam in comparison with that in other countries, an expenditure threshold, which is comparable across countries,

TABLE 3  
Vietnam's Poverty Rate using International Standard

Year	Mean Expenditure Per Capita (in PPP \$ per month)	Percentage of Population Living under	
		1 PPP \$/day	2 PPP \$/day
1990	41.7	50.8	87.0
1993	48.9	39.9	80.5
1996	63.7	23.6	69.4
1998	68.5	16.4	65.4
2000	71.3	15.2	63.5
2001	73.8	14.6	61.8
2002	78.7	13.6	58.2
2004	85.5	10.6	53.4

Note:

The PPP dollars are reported in constant 1993 prices.

Source: World Bank (2004).

can be used. Normally, international comparisons involve a different expenditure threshold, measured in PPP dollars (with the same purchasing power) per day. Common thresholds are one and two PPP dollars per day. Internationally comparable poverty rates for Vietnam are presented in Table 3.

When compared with other developing countries worldwide, the pace at which Vietnam has alleviated poverty over the past decade is spectacular.<sup>5</sup> Using the one-dollar-a-day poverty line, Vietnam's achievement in poverty reduction has been tremendous. However, if the two-dollar-a-day poverty line is used, the rate of poverty reduction has been much slower. This difference can be attributed to the fact that a large proportion of the Vietnamese population is no longer desperately poor, but it is certainly not yet wealthy.

### *b. The Inequality Situation*

In order to analyse the inequality in Vietnam, the population is broken down into groups of equal size, from poorest to richest. After that, the share of total expenditure represented by each of the groups is measured. Table 4 reports such a breakdown, based on five expenditure quintiles.

As reported in Table 4, a steadily growing factor, albeit at a moderate pace, between expenditure of the richest and poorest quintiles of the population shows signs of growing distributional imbalances. Between 1993 and 2004, the income

<sup>5</sup> China also performs very well in this field (see Pasha and Palanivel, 2004).

TABLE 4  
Share of Expenditure by Population Quintile (%)

<i>Quintiles</i>	<i>1993</i>	<i>1998</i>	<i>2002</i>	<i>2004</i>
Poorest	8.4	8.0	7.8	7.1
Near poorest	12.3	11.8	11.2	11.2
Middle	16.0	15.4	14.6	15.2
Near richest	21.6	21.2	20.6	21.8
Richest	41.8	43.7	45.9	44.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Richest/poorest*	4.97	5.49	6.03	6.27

Note:

\* Expenditure of the richest divided by expenditure of the poorest.

Source: Based on GSO, Vietnam.

share of the poorest 80 per cent of the population declined slightly over time, while that of the richest quintile increased. This split matches almost exactly the urban–rural divide in Vietnam, as almost 80 per cent of the population still lives in rural areas, whereas the richest 20 per cent live in urban areas. This situation implies that inequality in Vietnam has been slightly increasing.

Another conventional inequality indicator is the Gini index. It ranges from zero (indicating the perfectly egalitarian distribution) to one (the extreme case where all incomes are concentrated in the richest population group). The Gini index for expenditure is presented in Table 5.

According to data in Table 5, several important characteristics deserve attention. First, Vietnam's Gini coefficient has increased over time, implying a gradual increase in inequality. It was relatively low at the beginning of the reform period, certainly due to the legacy of the long socialist era. However, inequality was *managed* in the period 2002–04. Second, the inequality in urban areas went up and down, whereas the inequality in rural areas increased over time. Third, the richest region (Southeast) somehow *managed* the inequality, whereas the poorest regions (Northern Mountains, North Central Coast and Central Highlands) experienced an increase in inequality.<sup>6</sup>

Table 6 reports the decomposition of the Theil L inequality index, which provides rich insights into sources of rise in overall inequality. According to this method, inequality is decomposed into within-group (e.g. within rural areas) and between-group (e.g. between urban and rural areas) inequalities.

As indicated, the major source of inequality over the period 1993–2004 is from within-group inequality. For example, 79 per cent of the total inequality in

<sup>6</sup> Inequality is traditionally a problem commonly found in urban areas and rich regions.

TABLE 5  
Gini Index for Per Capita Expenditure

<i>Index Ranges from 0 to 1</i>	1993	1998	2002	2004
<b>National dimension (Vietnam)</b>	<b>0.34</b>	<b>0.35</b>	<b>0.37</b>	<b>0.37</b>
<b>Area dimension</b>				
Urban	0.35	0.34	0.35	0.33
Rural	0.28	0.27	0.28	0.30
<b>Regional dimension</b>				
Northern Mountains	0.25	0.26	0.34	0.36
Red River Delta	0.32	0.32	0.36	0.35
North Central Coast	0.25	0.29	0.30	0.31
South Central Coast	0.36	0.33	0.33	0.34
Central Highlands	0.31	0.31	0.36	0.36
Southeast	0.36	0.36	0.38	0.35
Mekong River Delta	0.33	0.30	0.30	0.32

Source: GSO and State Planning Committee (1994) and GSO (2000, 2004, 2006a).

TABLE 6  
Decomposition of Inequality by Area and Regional Dimensions

<i>Theil L's Index</i>	1993	1998	2004	<i>Change</i> 1993–98	<i>Change</i> 1998–2004	<i>Change</i> 1993–2004
Urban	0.13	0.13	0.15	0.00	0.02	0.02
Rural	0.19	0.20	0.18	0.01	–0.01	0.00
<b>Total inequality</b>	0.18	0.20	0.24	0.02	0.04	0.06
Between urban and rural areas	0.04	0.06	0.08	0.02	0.02	0.04
Within urban and rural areas	0.14	0.14	0.17	0.00	0.02	0.03
Between regions	0.03	0.05	0.04	0.02	0.00	0.02
Within regions	0.15	0.16	0.20	0.00	0.04	0.05
<b>Sources of change (%)</b>						
Total	100	100	100	100	100	100
Between rural and urban	21	30	31	96	39	61
Within rural and urban	79	70	69	4	61	39
Between regions	15	23	17	83	–12	24
Within regions	85	77	83	17	112	76

Source: GSO, Vietnam.

1993 came from inequality within urban and rural areas. Only 21 per cent of the total inequality was attributed to inequality between urban and rural areas. So, if the mean per capita income of the rural population were raised to be equal to the mean urban per capita income, overall inequality would decline by 21 per cent. Similarly, 85 per cent of the total inequality in 1993 came from within-region inequality, while only 15 per cent of the total inequality was from between-region inequality.

However, in terms of trend, between-group inequality had increased over time, while within-group inequality had declined. This suggests that the income gap between urban and rural areas was on the increase, while disparity within urban and rural areas was declining. Similarly, the income gap between regions increased in relation to that within each region. This indicates that the major source of the increase in inequality during the period 1993–2004 came from between-group inequality. Therefore, the gap between urban and rural areas has increased.

#### 4. IMPACTS OF TRADE LIBERALISATION ON POVERTY REDUCTION

There are several potential channels of impacts of trade liberalisation on poverty in a country (McCulloch et al., 2001). First, the reduction of barriers to international trade could result in economic growth, which is good for the poor because it increases the average income per capita. Second, trade liberalisation can have an impact on poverty through the redistribution of employment opportunities and thus the subsequent redistribution of income (wages). Third, it can also affect poverty directly through changes in relative prices charged to households. Finally, the induced growth and taxation effects of trade reform would bring about changes in poverty through resources available for poverty reduction programmes. Hence, it is important to focus on detailed pathways through which trade liberalisation has impacts on poverty.<sup>7</sup>

##### *a. Channels of Economic Growth*

Trade liberalisation in Vietnam has arguably made a vital contribution to the outstanding performance of the economy in recent decades. Between 1990 and 2005, real GDP grew at around 7–8 per cent per annum (Table 7). This impressive growth was closely associated with a remarkably strong overall reduction in poverty incidence. Therefore, in order to analyse how trade liberalisation affects poverty reduction, it is important to estimate the tremendous impact of trade reform on Vietnam's economic growth.

On the export side, the export growth rate has been high in four sub-periods. Also export per capita increased from US\$11.6 in 1985 to US\$390.3 in 2005. Over the same period, the export component of GDP increased from 4.6 per cent to 62.7 per cent. The movement in GDP illustrates the increased importance of exports for Vietnamese economic growth. As a result, the per capita income, as measured by PPP, has increased considerably. This is the prerequisite condition for poverty reduction.

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<sup>7</sup> For a detailed analysis on trade barriers in Vietnam, see Doanh and Heo (2007).

TABLE 7  
Contribution of Vietnam's Exports to Its Economic Growth

<i>Year</i>	<i>Export</i>	<i>GDP</i>	<i>Export/GDP</i>	<i>Export Per Capita</i>
1985	692.7 (177.1)	705.8 (5.6)	4.6	11.6
1990	2,524.6 (8.3)	942.4 (5.0)	39.0	36.6
1995	5,621.4 (38.7)	1,445.7 (9.5)	27.1	75.7
2000	14,481.7 (25.5)	2,036.9 (6.8)	46.5	186.6
2005	32,233.0 (25.0)	3,024.8 (8.4)	62.7	390.3

Notes:

The numbers in parentheses are the growth rates compared with the previous year.

PPP GDP per capita.

Source: The authors' calculation based on GSO, IMF Direction of Trade Statistics and WEO Database.

On the import side, the composition of Vietnam's imports displays interesting information on how Vietnam's international trade could be a useful catalyst to economic growth. As indicated in Table 9, the major parts of Vietnam's imports have been capital and intermediate goods, which have been used for production. Such a biased import composition certainly stimulates rapid long-term economic growth in Vietnam.

The relationship between economic growth and poverty reduction can be assessed by averaging the rate of change of both GDP per capita and the poverty rate over an entire decade. The degree to which poverty responds to growth is encapsulated in the notion of elasticity, which measures the percentage change in poverty for a 1 per cent change in growth.<sup>8</sup>

The results in Table 8 show a strong connection between economic growth and poverty reduction in Vietnam. The growth elasticity of poverty was 0.96 in the period 1993–98 and increased over time, indicating that a 1 per cent increase in the mean income would result in greater reduction of poverty. This could be considered as a highly pro-poor pattern of growth in Vietnam when compared with other countries during the last 30 years (Pasha and Palanivel, 2004).

<sup>8</sup> Growth elasticity of poverty is defined as the relative change in the poverty headcount between two periods for a 1 per cent growth in mean income. It is calculated as follows:  $\varepsilon_H = (\partial H / \partial \mu)(\mu / H)$ , where  $H$  is the headcount index, and  $\mu$  is the mean income (Son and Kakwani, 2004; Kakwani and Son, 2006; Ram, 2006; and the World Bank's website on growth elasticity of poverty).

TABLE 8  
Growth Elasticity of Poverty

<i>Period</i>	<i>Decrease in Poverty Incidence (in Percentage Point)</i>	<i>Growth Elasticity of Poverty</i>
1993–98	20.7	0.96
1998–2002	8.5	1.07
2002–04	9.4	2.66
1993–2004	38.6	0.77

Source: The authors' computation based on GSO's data.

### *b. Channels of Enterprise*

This path focuses on two main mechanisms: employment and wage changes through enterprise channels. Foreign shocks transmitted to poverty are generally through the activities of enterprises. The changes in product prices that accompany trade reform can lead to changes in the composition of output, and hence in the bundle of factors used in production.

Mainstream international trade theory predicts that labour-abundant countries have comparative advantages in labour-intensive industries, and export labour-intensive goods. The increased exports of labour-intensive commodities induced by trade liberalisation undoubtedly lead to an expansion of these labour-intensive industries. As a result, there would be an increase in demand for low-skilled workers. Therefore, a useful starting point is to identify export and import industries that have gone through notable changes over recent years.

Table 9 presents the composition of Vietnamese imports and exports, whose values have been increasing rapidly over time. The import sectors appear to be dominated by capital and intermediate products, which are used for production. However, compared with imports, exports are more labour intensive. This has two implications. First, in a labour-intensive industry, any increase in exports would generate a big jump in demand for low-skilled labour, whereas the increase in imports would not have a significantly negative impact on employment. Second, most of the poor are unskilled labourers and farmers. So this composition of exports is clearly conducive to reducing poverty.

In order to estimate the employment effects of trade, a method called factor content analysis is employed.<sup>9</sup> To do this, the employment coefficient (measuring the employment per US\$1 million of output) at industry level is computed. After that, this coefficient is weighted by the share of each industry in imports and exports in order to arrive at employment coefficients of imports and exports,

<sup>9</sup> This method was used by Jenkins (2004a). The formulas for computing the employment coefficients of exports and imports are reported in Appendix B.

TABLE 9  
Major Exports and Imports by Each Five-year Period, 1986–2005

<i>Major Exports</i>	<i>1986–90</i>	<i>1991–95</i>	<i>1996–2000</i>	<i>2001–05</i>	<i>Major Imports</i>	<i>1986–90</i>	<i>1991–95</i>	<i>1996–2000</i>	<i>2001–05</i>
	(US\$ million)					(US\$ million)			
<b><i>Total exports (including others)</i></b>	<b>7,031.7</b>	<b>17,156.1</b>	<b>51,825.1</b>	<b>110,830.0</b>	<b><i>Total imports (including others)</i></b>	<b>12,685.1</b>	<b>22,784.0</b>	<b>61,614.6</b>	<b>130,151.0</b>
Crude oil	668.0	4,131.0	9,619.0	23,261.0	Machinery, equipment and parts	–	5,598.0	10,188.0	22,514.0
Apparels, clothing accessories	675.0	1,912.0	7,744.0	17,541.0	Petroleum oils	2,549.4	3,242.8	6,223.7	14,896.8
Fishery products	861.0	2,193.0	4,788.0	11,191.0	Iron and steel	564.1	936.2	3,024.7	9,498.1
Footwear	52.0	511.0	5,398.0	11,454.0	Textile fabrics	282.7	279.1	2,700.4	8,534.4
Electronic parts, computers and parts	0.0	0.0	2,311.0	4,672.0	Auxiliary materials for sewing	109.8	625.8	3,166.4	7,905.2
Rice	661.0	1,969.0	4,438.0	4,427.0	Plastic in primary form	131.6	584.6	1,873.9	4,640.0
Coffee	343.0	1,207.0	2,598.0	2,594.0	Motor vehicles	360.1	400.1	929.3	3,854.8
Rubber	207.0	514.0	885.0	2,216.0	Chemical fertilisers	779.9	1,500.7	2,510.4	2,992.0
Cashew nuts, shelled	40.0	270.0	603.0	1,576.0	Motorcycles	39.7	1,088.1	2,190.8	2,379.7
Coal	117.0	319.0	517.0	1,480.0	Medicament	155.5	367.3	1,446.8	1,990.0
Vegetables and fruits	272.0	166.0	534.0	1,131.0	Auxiliary materials for cigarettes	28.9	328.0	487.4	782.1
Articles of vegetable fibres	175.0	12.0	205.0	687.0	Auxiliary materials for footwear	–	261.4	2,129.5	1,963.6
Pepper	60.0	113.0	462.0	608.0	Fibres, not spun	118.5	524.5	1,222.0	1,215.0
Tea	100.0	106.0	242.0	412.0	Insecticides and materials	75.5	239.3	657.0	788.9
Ground nuts, shell	144.0	281.0	238.0	198.0	Cotton	419.5	210.4	398.3	689.9

TABLE 9 *Continued*

<i>Major Exports</i>	<i>1986–90</i>	<i>1991–95</i>	<i>1996–2000</i>	<i>2001–05</i>	<i>Major Imports</i>	<i>1986–90</i>	<i>1991–95</i>	<i>1996–2000</i>	<i>2001–05</i>
	(Percentage of total exports)					(Percentage of total imports)			
Crude oil	9.5	24.1	18.6	21.0	Machinery, equipment and parts	0.0	24.6	16.5	17.3
Apparels, clothing accessories	9.6	11.1	14.9	15.8	Petroleum oils	20.1	14.2	10.1	11.4
Fishery products	12.2	12.8	9.2	10.1	Iron and steel	4.4	4.1	4.9	7.3
Footwear	0.7	3.0	10.4	10.3	Textile fabrics	2.2	1.2	4.4	6.6
Electronic parts, computers and parts	0.0	0.0	4.5	4.2	Auxiliary materials for sewing	0.9	2.7	5.1	6.1
Rice	9.4	11.5	8.6	4.0	Plastic in primary form	1.0	2.6	3.0	3.6
Coffee	4.9	7.0	5.0	2.3	Motor vehicles	2.8	1.8	1.5	3.0
Rubber	2.9	3.0	1.7	2.0	Chemical fertilisers	6.1	6.6	4.1	2.3
Cashew nuts, shelled	0.6	1.6	1.2	1.4	Motorcycles	0.3	4.8	3.6	1.8
Coal	1.7	1.9	1.0	1.3	Medicament	1.2	1.6	2.3	1.5
Vegetables and fruits	3.9	1.0	1.0	1.0	Auxiliary materials for cigarettes	0.2	1.4	0.8	0.6
Articles of vegetable fibres	2.5	0.1	0.4	0.6	Auxiliary materials for footwear	0.0	1.1	3.5	1.5
Pepper	0.9	0.7	0.9	0.6	Fibres, not spun	0.9	2.3	2.0	0.9
Tea	1.4	0.6	0.5	0.4	Insecticides and materials	0.6	1.1	1.1	0.6
Ground nuts, shell	2.1	1.6	0.5	0.2	Cotton	3.3	0.9	0.6	0.5

Source: GSO (2006b).

TABLE 10  
Employment Coefficient of Exports and Imports (per million USD of output)

Year	Total		Agriculture		Mining, Quarrying		Manufacturing	
	Export	Import	Export	Import	Export	Import	Export	Import
1998	669.22	277.40	2,844.84	2,882.29	45.48	793.51	387.78	213.82
1999	608.75	291.73	2,520.62	2,971.72	38.38	1,117.42	417.45	215.07
2000	747.83	256.41	2,802.92	2,791.18	21.80	873.44	409.84	179.29
2001	541.53	261.33	2,455.64	2,949.21	28.17	665.96	406.42	180.71
2002	563.84	271.93	2,421.48	2,724.08	31.93	665.38	469.69	197.98
2003	562.99	241.79	2,144.72	2,633.69	30.37	550.78	452.84	173.77
2004	469.28	226.02	2,307.87	2,550.94	31.73	439.03	402.81	154.25

Source: Authors' computation based on GSO data, various years.

respectively (Table 10). Thus, the employment coefficient of exports indicates how much employment is created by exporting US\$1 million of output. Similarly, the employment coefficient of imports indicates how much labour would be replaced by US\$1 million of imports.

According to Table 10, the structure of Vietnam's exports is highly labour intensive. Employment per US\$ million of exports is much higher than the level found for imports in all four years. For example, in 1998, every US\$ million of exports would increase employment by 669 labours, whereas only 277 labours are replaced by US\$1 million of imports. However, the employment coefficient for exports has been decreasing since 2002, after a moderate increase in 2000. This indicates an increase in productivity over time. The employment coefficient for exports is especially high in agriculture and manufacturing, and relatively low in mining. Since the share of manufacturing exports in total exports is high, whereas the share of mining and quarrying in total exports is minimal, the effect of exports on employment is positively significant.<sup>10</sup> In contrast, the employment coefficient for imports is especially high in mining and agriculture. However, as the share of agricultural and mining imports in relation to total imports is small, the negative effects of imports on employment are reduced.<sup>11</sup>

<sup>10</sup> However, as indicated above, labour productivity increases over time. Therefore, the employment effects of exporting have been reduced considerably. This result is consistent with Jenkins (2004b). Jenkins (2004b) shows that in the 1990–94 and 1995–99 periods, the employment growth in Vietnamese industry as a whole resulting from output increases with unchanged employment output coefficients was reduced by at least two-thirds as a result of increased within-industry labour productivity. Evidence is also cited in Jenkins (2004b) that these productivity changes were substantial in the state-owned industrial sector, which in turn is important in export industries such as textiles, garments and footwear.

<sup>11</sup> Employment in Vietnam is reported in Appendix A, Tables A5 and A6.

The trade-induced changes in the factor market can also affect households through wage changes. It is expected that trade would lead to an increase in the prices of exportable commodities and a decrease in the prices of the importables. Since Vietnam's exports are more or less labour intensive, trade should lead to higher incomes for labourers, particularly the poor. The wage rate and its growth are presented in Appendix A, Table A7.

According to Appendix A, Table A7, the average monthly income per employee in the state sectors has increased steadily. Between 1994 and 2000, the annual growth rate of real wages in the agricultural sector is relatively high and stable. Since most of the poor are engaged in agricultural activities, this high and stable growth in real wages during this period was an important source of poverty reduction in rural areas. At the same time, the growth rate of real wages in industry is high. This is due to the contribution of manufacturing, an export-oriented sector. Also wages in non-state sectors increased steadily. This illustrates an important effect of trade on wages, and consequently on poverty.

### *c. Market Channels*

Another impact of trade liberalisation on poverty is the substitution and income effects associated with the changes in relative prices. Trade-induced price changes in product markets affect both nominal and real incomes of households in their capacities as producers as well as consumers. The lowering of tariff barriers is likely to reduce the price of imported goods in the domestic market, and at the same time export liberalisation may lead to higher prices for exportables. The direction and strength of these effects on real incomes depend on whether households are net buyers or net sellers of the products involved.

Vietnam's economy remains primarily agrarian. Thus, agriculture is a key sector for poverty analysis. Price liberalisation, de-collectivisation in agriculture and currency devaluation have had a great impact on agricultural households and consumers since 1986. Even between 1993 and 1998, when the exchange rate was stable, a huge policy-induced development of Vietnam's export sector and import liberalisation would lead one to expect a significant change in the prices of tradable goods. Table 11 provides an illustrative example.<sup>12</sup> This table shows that rice and coffee, two of the leading exports, saw relatively higher price increases during this period than did other products. Being the single most important source of income for the majority of Vietnamese rural households, the increased price of rice is stimulating producers. In contrast to the benefits to producers, price increases in consumer goods, especially rice, are bound to generate adverse effects on net consumers. According to the calculation based on the 1992–93 survey, rice on

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<sup>12</sup> Comprehensive retail prices of selected goods and services are reported in Appendix A, Table A8.

TABLE 11  
Agricultural Prices

(1991 = 100)	1992	1993	1994	1995	1996	1997	1998	Average
International rice price	95.1	80.2	91.5	109.6	115.7	103.4	103.8	29.4
International coffee price	75.4	83.4	177.0	178.1	143.9	223.0	159.4	91.0
Domestic retail rice price	63.0	63.7	69.1	80.8	78.3	74.0	80.8	27.0
Domestic retail paddy price	62.1	62.6	66.9	82.3	81.2	73.1	79.6	27.3
Unit values of fertilisers	–	2.49	–	–	–	–	1.92	–22.9

Source: Extracted from Justino and Litchfield (2003).

its own accounted for a 44 per cent share of total food expenditure. The figure is even higher for poor households who appeared to use 53 per cent of their food expenditure on rice. As a result, changes in rice and coffee prices following liberalisation would have a significant poverty impact on Vietnamese rural households. In the case of fertiliser, one of the main import items, the price had been decreasing between 1993 and 1998. Therefore, farmers who use fertiliser-intensive growing techniques appear to have responded to the reduced fertiliser prices more strongly. Their chances of escaping from poverty would significantly increase.

*(i) Rice and trade liberalisation*

Table 12 shows poverty diminishing for both producers and consumers of rice in all regions, except the Central Highlands. The poverty reduction figures for rice net producers was better than for rice net consumers, a reduction from 63.77 per cent to 43.59 per cent compared to the decrease from 69.69 per cent to 49.37 per cent. At the initial stage, when food poverty was still high, the increase in rice output contributed significantly to poverty reduction.<sup>13</sup> Rice was very regionally dependent, highlighting the different structure of rice production in the Mekong River Delta where rice land and production is unequally distributed. The beneficial effects of higher prices of rice accrue to landowners, though benefits may be transferred indirectly through wage channels. Therefore, poverty in the Mekong Delta reduced only slightly, though the poverty level of rice producers and consumers was below the total average for this group.

*(ii) Coffee and trade liberalisation*

Compared to rice, the effects of trade liberalisation on coffee production were more visible. Poverty reductions for coffee producers have been substantial,

<sup>13</sup> Initially the increase in rice output was driven primarily by de-collectivisation of land. However, when output reached the level that was sufficient for domestic consumption, a further increase in output was attributed to export expansion.

TABLE 12  
Distribution of Net Producers and Net Consumers of Rice and Net Sellers of Coffee

<i>Regions</i>	<i>Net Producers/Sellers</i>				<i>Net Consumers</i>			
	<i>Poor (%)</i>		<i>Non-poor (%)</i>		<i>Poor (%)</i>		<i>Non-poor (%)</i>	
	<i>1992–93</i>	<i>1997–98</i>	<i>1992–93</i>	<i>1997–98</i>	<i>1992–93</i>	<i>1997–98</i>	<i>1992–93</i>	<i>1997–98</i>
<b>Rice</b>								
<b>Total</b>	<b>63.77</b>	<b>43.59</b>	<b>36.23</b>	<b>56.41</b>	<b>69.69</b>	<b>49.37</b>	<b>30.31</b>	<b>50.63</b>
Northern Uplands	81.61	60.00	18.39	40.00	87.12	74.75	12.88	25.25
Red River Delta	72.82	34.61	27.18	65.39	68.59	44.20	31.41	55.80
North Central	75.28	52.54	24.72	47.46	78.92	49.41	21.08	50.59
Central Coast	56.97	37.17	43.03	62.83	61.58	61.40	38.42	38.60
Central Highlands	53.94	69.45	46.06	30.55	73.52	44.20	26.48	55.80
Southeast	39.47	7.60	60.53	92.40	49.86	16.50	50.14	83.50
Mekong River Delta	44.22	40.24	55.78	59.76	63.85	44.99	36.15	55.01
<b>Coffee</b>								
<b>Total</b>	<b>65.60</b>	<b>29.35</b>	<b>34.40</b>	<b>70.65</b>				
Northern Uplands	100.00	66.70	0.00	33.33				
Red River Delta	–	–	–	–				
North Central	–	–	–	100.00				
Central Coast	–	–	–	–				
Central Highlands	68.89	34.17	31.11	65.83				
Southeast	46.83	10.18	53.17	82.92				
Mekong River Delta	0.00	0.00	100.00	100.00				

Source: Justino and Litchfield (2003).

from a position of 65.6 per cent of the population being poor in 1992–93 to just 29.35 per cent in 1997–98, a level below rice producers and consumers, rural poverty levels and Vietnam's poverty average. Being net coffee producers therefore increased the probability of moving out of poverty.

#### *d. Government Channels*

Trade liberalisation affects the poor indirectly through its impacts on trade taxes, and thus resources available for poverty reduction programmes. Government revenue is affected by the interplay of tariff reduction (which reduces revenue), increased trade flow due to tariff reduction (which increases revenue) and tariffication (which increases revenue). In addition, the government can choose among various domestic taxes to replace any revenues lost through trade liberalisation. If there is a fall in government revenue following the reduction of tariff barriers, the government might cut social expenditures on education, health and social security, thereby adversely affecting poor households. On the other hand, if there is an increase in government revenue, the government might increase its expenditure on the poor.

Appendix A, Table A9, decomposes the sources of government revenue. As indicated, despite tariff reduction, the share of trade taxes in total revenue increased after the reforms.<sup>14</sup> One contribution to the increase in government revenues was the conversion of quantitative restrictions into tariffs. Even though tariff rates are bound to decline, total imports, or the base to which tariff rates are applied, will undoubtedly increase. It is possible that the increase in import volumes will be faster than the decline in tariff rates. These reforms increased the tax base of the government despite the falling rates. In addition, a large component of trade-related revenue is generated by VAT and specific consumption taxes on imports, which are not bound to decline as a result of the international commitments of Vietnam. Finally, increasing international integration would accelerate economic growth, which will in turn lead to rising revenue from domestic tax sources.

The growth of revenue and the structure of spending have a significant bearing on poverty reduction. Higher revenue collection can be translated into poverty reduction only with pro-poor allocation of government budget and expansion of the social protection measures (Appendix A, Table A10). In Vietnam, the provision of basic social services has been a priority for the Vietnamese government. As a result, spending on social services increased substantially, from VND18.2 trillion in 1995 to VND56.9 trillion in 2005. There is in place

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<sup>14</sup> Pritchett and Sethi (1994) and Hood (1998) also found that, even though tariffs are reduced, a reduction in the scope of tariff exceptions and exemptions in the early stages of trade liberalisation would lead to an increase in tariff revenues.

TABLE 13  
Budget Transfer Per Capita by Regions (in VND '000)

<i>Regions</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
Northeast	196	270	377	446	645	662
Northwest	453	548	730	822	1,425	1,431
Red River Delta	-598	-663	-733	-894	-945	-1,150
North Central Coast	77	241	330	330	306	271
South Central Coast	-121	-13	-44	-179	-367	-142
Central Highlands	217	334	505	622	659	626
Southeast	-3,243	-4,290	-4,529	-4,933	-5,699	-5,676
Mekong Delta	114	170	246	223	263	228

Note:

The negative sign indicates that the region is a net contributor to the central budget.

Source: GSO, Vietnam.

an extensive system of social protection in Vietnam in the form of social security, pensions and regular social relief for certain target groups (e.g. the elderly, orphans and disabled) in the form of emergency, starvation and social evil relief funds. Table 13 provides information on budget transfer per capita between 1999 and 2004.

As the data suggest, public spending is increasing steadily. The Northwest, one of the poorest regions, is the largest receiving region, followed by the Central Highlands. The per capita transfer to this region is equal to two-thirds of the poverty line. Such a significant transfer has been regarded as one of the factors behind the progress in poverty reduction in Vietnam.

## 5. POLICY IMPLICATIONS

### *a. Strengths/Opportunities*

#### *(i) Strong pro-poor growth*

One of Vietnam's strengths in terms of poverty reduction is its healthy pro-poor pattern of growth. Regional experience suggests that impressive growth performance does not automatically result in a reduction in poverty. The cases of Thailand in the 1980s, Cambodia in the 1990s, Malaysia in the 1990s, Sri Lanka in the 1990s, Pakistan in the 1990s, Kyrgyzstan in the period 1996–99, etc., provide clear examples of such failure (UNESCAP, 2003; Pasha and Palanivel, 2006). Thus, significant reduction in the incidence of poverty during the reform period is one of the most important achievements in the development of Vietnam.

*(ii) Relatively stable inequality indicator*

Although displaying a moderate increase, Vietnam's inequality indicator as measured by the Gini index is considered by international observers to be relatively moderate when benchmarked against that of other countries (Pasha and Palanivel, 2004; Warr, 2006; UN, 2007).

*(iii) Effective poverty reduction programmes*

In the last 15 years, the Vietnamese government has taken poverty reduction measures within a framework of 14 national development programmes focusing on job creation, eradication of illiteracy, reduction of child malnutrition, etc. Moreover, the government established the National Target Programme for Hunger and Poverty Reduction in 1996, aiming at coordinating poverty reduction projects. Another programme introduced in 1998 was the 'Programme for Socio-Economic Development in Communities Facing Extreme Difficulties' (Programme 135), which focused on poverty reduction in the poorest regions. Apart from specialised programmes for poverty reduction, the Vietnamese government initiated several policies on social protection, such as health insurance, exemption of education fees, safe water supplies, support for ethnic minority groups, etc. These programmes have had a direct impact on poverty reduction.

*b. Weaknesses/Threats*

Although admitting that Vietnam's achievements in terms of poverty reduction is exceptional, these are not yet seen as stable. Vietnam still has to overcome many challenges to the poverty reduction process as follows:

*(i) The number of poor households is still high*

Despite significant reduction in poverty, a note of caution is needed in interpreting the gain in poverty reduction. When using a much higher poverty line, there were 4.6 million households living in poverty (MOLISA).

*(ii) The concentration of the poor near the poverty line has declined*

A relatively high concentration of poor households near (and under) the poverty line during the 1990s has been an important explanation for the pro-poor nature of growth in Vietnam. However, such concentration has declined in recent years.<sup>15</sup> This implies that a higher growth rate is required in order to reduce one percentage point in poverty.

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<sup>15</sup> According to the VLSS 1998 and VHLSS 2004, the percentage of poor people who fall short of 10 per cent from the poverty line was 8.3 per cent in 1998 and 4.8 per cent in 2004.

*(iii) The distributional pattern of poverty is persistent and results in the stratification of living standards*

A high incidence of poverty has always been found in rural areas, among the ethnic minority population, and in certain regions (e.g. Northern Mountains, North Central Coast and Central Highlands). In addition, the poverty gap among these populations and regions has been persistently high. The problem is more serious for ethnic minority people since they are economically and socially isolated from the rest of the nation. These have indeed posed important challenges to the Vietnamese government.

*(iv) Poverty is still deep in many dimensions*

Although abject hunger does not exist in Vietnam, part of the poor population still suffers from seasonal shortages of food because of drought, flooding and other natural disasters. The poor also live in bad housing. More than 0.7 million families live in temporary housing. In some mountainous provinces, most households do not have electricity. Almost half of the rural population has no safe drinking water. The poor have a low level of education. Some 25 to 50 per cent of the heads of poor households in mountainous areas are illiterate. Children of poor households tend to drop out of secondary or high school. Access to health-care is also limited among poor households.

*(v) Poverty reduction is fragile*

The achievements in poverty reduction are not solidified enough, leaving the possibility of slipping back into poverty. Vietnam is located in an area where natural calamities and floods often occur and 80 per cent of the poor are working in agricultural fields, leading to the high risk of becoming poor again. MOLISA records that each year about 20,000–25,000 households fall back into poverty.

*(vi) State subsidies for social security declined after 1994*

Enterprises were expected to take responsibility for their employees. In 1998, most of these programmes (except for social security) were integrated into the national Hunger Elimination and Poverty Eradication (HEPR) programme. In addition, the share of expenditure for health, pensions, social relief and other services has been declining. This has negative effects on the poor since they now have to pay hospital fees.

### *c. Future Directions*

*(i) Ensuring high economic growth*

The results discussed above indicate that a strong pro-poor pattern of economic growth has been the most important explanation for the impressive reduction of poverty in Vietnam. An intermediate implication is that sustaining economic growth is arguably one of the most effective sources of poverty reduction.

*(ii) Maintaining an equitable pattern of growth*

Trade-induced growth alone will not be sufficient to eliminate poverty because of an uneven distribution of growth and an overall rise in inequality. Inequality at the disaggregate level discussed above implies that, although the economic growth generated by trade liberalisation in Vietnam was quite broad-based, it did lead to a rise in income inequality. It should be noted that inequality does not mean more serious poverty. Rather, all people benefit from trade liberalisation, albeit some more than others. The policy implication is that a more equitable pattern of growth in the context of Vietnam's deeper integration into the world economy is needed to enhance the poverty-reducing effects of growth.

*(iii) Giving priorities to the welfare of disadvantaged groups*

Most Vietnamese poor are isolated geographically, ethnically and linguistically. International experiences showed that the 'trickle-down' effects of economic growth have little or no impact on these marginalised and disadvantaged groups (e.g. Norton, 2002; Todaro and Smith, 2003). The policy implication is that not uniform, but more differentiated, action plans targeted at the different groups of poor are required. This will have to include redistribution programmes from the wealthier cities to the countryside, and specific measures to tackle growing discrimination against disadvantaged groups. Of course, there are a number of risks associated with this strategy, including misallocation of resources, which could result in slower growth and threaten the government's fiscal position.

*(iv) Locking-in domestic reforms*

Poverty reduction is inextricably linked to policies that promote extensive use of a primary factor owned by the poor: their labour. As indicated by the employment coefficient for exports, the composition of exports by Vietnam is highly labour intensive. Undoubtedly, high levels of protection given to sectors under import-substitution industrialisation policy will hurt sectors with the potential for more rapid employment growth.<sup>16</sup> The policy implication is that the government needs to keep the economic reform programme on track, despite an expected increase in opposition from those sectors who stand to lose most from further reforms.

*(v) Promoting export-oriented activities and improving social protection*

One key negative effect of trade liberalisation is the reduction of sustained employment in government-protected sectors. These industries can seldom compete in the global market and therefore are edged out of business by cheaper and higher quality exports. To counter this effect, Vietnam should create

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<sup>16</sup> It needs to be noted, however, that the major manufacturing export industries also had substantial nominal (and even higher effective) protection, which did not stop their export expansion.

incentives to expand labour-intensive activities and establish worker re-training programmes for laid-off workers. By promoting labour flexibility, the impact of trade on employment may be only transitory. At the same time, the social protection system needs to be improved in order protect the poor from external shocks in the time of Vietnam's deeper integration into the world economy.

## 6. CONCLUSION

This paper has investigated the poverty impact of trade liberalisation in Vietnam during the period of economic reform. It was found that trade liberalisation has made a vital contribution to the reduction of poverty in Vietnam. The effects of trade liberalisation on the individuals and households could be transmitted through four channels.

1. *Through economic growth*: Economic growth is one channel through which trade liberalisation helps to reduce poverty. This is illustrated by relatively high growth elasticity of poverty that has increased over time. This implies that the poverty-reducing effect of growth is strengthened.
2. *Through enterprise*: Because of the labour-intensive feature of exports, an increase in exports would translate into an increase in employment, especially in labour-intensive industries. This explains the poverty-reducing power of the manufacturing sector in Vietnam. At the same time, incomes of the poor also increased as a result of an increase in real wage growth.
3. *Through the market*: Under liberalised trade, exports and imports boom, leading to increased prices of exportables and decreased prices of importables. It was found that the incomes of the poor tend to increase through their engagement in rice, coffee and light manufacturing. Households that produce commodities for export such as coffee and rice had a substantially better chance of lifting themselves out of poverty. This was due to strong price effects on net suppliers of commodities and is most strongly seen for coffee producers who managed to reduce poverty substantially in 1998.
4. *Through government*: An indirect benefit from liberalised trade is an increase in government revenues from export earnings, which can be channelled into poverty-reducing activities, education, health and other social investment.<sup>17</sup> With increased revenue through trade at hand, the Vietnamese government has been able to issue policies and mechanisms to implement and encourage poverty reduction. The national poverty reduction programmes and policies play the key role in mobilising, allocating and using resources for prioritised objectives and localities. Not only have they

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<sup>17</sup> This finding is consistent with that of Fan et al. (2000, 2004).

directly solved the most current problems of poverty, but have also driven the whole poverty reduction movement in the country.

The findings and conclusions of this paper contribute to the theoretical debate on the linkage between trade and poverty, and the policy lessons. The findings weaken the arguments by the critics of trade liberalisation, and reaffirm the argument that trade liberalisation helps reduce poverty.

Furthermore, the findings of this paper suggest that the success story of Vietnam in terms of trade liberalisation and poverty reduction in the last 20 years could provide a good lesson for other countries with a similar level of development to Vietnam. First, there is a trade-off between poverty and equality. Equality is an important catalyst for the enhancement of the poverty-reducing effect of growth. The lesson here is that priorities and interventions need to be targeted to the disadvantaged groups in society, especially in the period of reform when winners and losers emerge. Vietnam did well in this respect. Second, import-substitution-based industry policy does not work because it promotes a pattern of industrialisation that does not enhance the welfare of poor people. The reason is that this type of pattern of industrialisation contributes insufficiently to expanding the demand for labour, the principal resource owned by the poor. Finally, in the case of Vietnam, the trade regime is gradually liberalised, step by step, allowing sectors and workers to make the adjustment. Thus, the negative effect of trade liberalisation on poverty is minimised. However, it should be noted that this final conclusion is only indicative and must be interpreted with caution.

APPENDIX A

TABLE A1  
Poverty Lines Calculated by GSO

<i>Poverty Lines</i>	<i>Year</i>	<i>Monthly Per Capita Expenditure (VND)</i>	<i>Monthly Per Capita Expenditure (US\$)</i>
Food poverty line	1993	62,477	5.9
	1998	107,236	8.1
	2002	112,000	7.3
	2004	124,000	7.9
General poverty line	1993	96,697	9.1
	1998	149,156	11.2
	2002	160,000	10.5
	2004	173,000	11.0

Note:

The food poverty line for urban area is VND146,000 in 2002 and VND163,000 in 2004.

Source: Data in column 3 are from GSO of Vietnam. Data in column 4 are calculated using the exchange rate from the Economist Intelligence Unit (EIU).

TABLE A2  
MOLISA's Poverty Line

<i>Year</i>	<i>Location</i>	<i>Monthly Per Capita Income (VND)</i>
1999	Mountainous and island rural areas	60,000
	Delta and upland rural areas	80,000
	Urban areas	100,000
2001–05	Mountainous and island rural areas	80,000
	Delta and upland rural areas	100,000
	Urban areas	150,000
2006–10*	Urban areas	230,000
	Rural areas	200,000

Note:

\* MOLISA's target.

Source: MOLISA, Vietnam.

TABLE A3  
Poverty Rate using MOLISA's Poverty Lines

<i>Year</i>	<i>GDP Growth</i>	<i>Poverty Rate</i>
1994	8.8	23.1
1995	9.5	20.3
1996	9.3	19.2
1997	8.2	17.7
1998	5.8	15.7
1999	4.8	13.0
2000	6.8	10.0
2001	6.9	17.0
2002	7.1	14.0
2003	7.3	11.0
2004	7.8	8.3
2005	8.4	7.0

Source: MOLISA.

TABLE A4  
Geographical Distribution of Poverty

	<i>2000</i>	<i>2004</i>	<i>2005</i>
<b><i>Whole nation</i></b>	<b><i>17.18</i></b>	<b><i>8.30</i></b>	<b><i>7.00</i></b>
1. Northeast	22.35	10.36	8.00
2. Northwest	33.96	14.88	12.00
3. Red River Delta	9.76	6.13	5.15
4. Northern Central Coast	25.64	13.23	10.50
5. Southern Central Coast	22.34	9.56	8.00
6. Central Highlands	24.90	13.03	11.00
7. Southeast	8.88	2.25	1.70
8. Mekong Delta	14.18	7.40	6.78

Note:

Poverty rates are based on the national poverty line of 2001–05.

Source: MOLISA and IMF (2006a).

TABLE A5  
Vietnam's Employment ('000 of persons)

	1995	2000	2005
<b>Total employment</b>	<b>34,590</b>	<b>37,601</b>	<b>42,709</b>
Agriculture, fishery and forestry	24,765	24,481	24,257
Industry and construction <sup>a</sup>	4,494	4,930	7,636
Trade, transport and communication	2,858	5,071	6,445
Education, culture and health	1,431	1,353	1,796
Other <sup>b</sup>	1,052	1,775	2,575
	(Percentage of total employment)		
Agriculture, fishery and forestry	71.6	65.1	56.8
Industry and construction	13.0	13.1	17.9
Trade, transport and communication	8.3	13.5	15.1
Education, culture and health	4.1	3.6	4.2
Other	3.0	4.7	6.0
	(Annual percentage change)		
<b>Total employment</b>	<b>2.8</b>	<b>4.5</b>	<b>2.7</b>
Agriculture, fishery, forestry	2.6	-1.3	-0.7
Industry and construction	3.3	14.6	5.8
Trade, transport and communication	3.5	47.8	8.0
Education, culture and health	2.6	6.1	8.3
Other	2.7	-18.5	11.4
<b>Unemployment rate (%)</b>	<b>5.8</b>	<b>6.4</b>	<b>5.3</b>

Notes:

<sup>a</sup> Includes mining and quarrying, electricity, gas, and water supply.

<sup>b</sup> Includes unclassified workers.

Source: IMF (2006b).

TABLE A6  
Vietnam's Non-state and State Employment ('000 of persons)

	1995	2000	2005
<b>1. Non-state employment</b>	<b>31,537</b>	<b>34,109</b>	<b>38,582</b>
Agriculture, fishery and forestry	23,840	24,255	24,038
Industry and construction	3,532	3,668	6,204
Industry	2,833	3,026	4,587
Construction	699	641	1,617
Trade, transport and communication	2,057	4,680	6,120
Trade	1,689	3,706	5,054
Transport and communication	368	975	1,065
Education, culture and health	452	241	426
Other	1,656	1,264	1,795
<b>2. State employment</b>	<b>3,053</b>	<b>3,501</b>	<b>4,127</b>
Agriculture, fishery and forestry	282	226	219
Industry and construction	1,051	1,262	1,432
Industry	745	863	909
Construction	297	399	523

TABLE A6 *Continued*

	1995	2000	2005
Trade, transport and communication	393	391	326
Trade	198	191	138
Transport and communication	195	200	188
Education, health, science and arts	933	1,146	1,371
Other	394	477	779

Source: IMF (2006b).

TABLE A7  
Average Wage in the State Sector (VND '000)

	1994	1997	2000	2001	2002	2003	2004	2005
<b>Average nominal wage</b>	<b>390</b>	<b>642</b>	<b>850</b>	<b>954</b>	<b>1,069</b>	<b>1,247</b>	<b>1,421</b>	<b>1,651</b>
Industry	576	841	1,322	1,548	1,703	1,925	1,867	2,198
Construction	417	738	861	961	1,015	1,261	1,361	1,960
Agriculture and forestry	287	480	680	590	740	988	1,250	1,031
Transportation	554	1,132	1,525	1,667	1,910	2,278	2,433	2,345
Trade	403	688	884	962	1,127	1,323	1,468	1,653
Education	394	405	615	725	783	1,016	1,115	1,293
Science	349	555	693	778	895	1,051	1,165	1,597
Culture, arts and sport	311	453	607	718	815	994	1,082	1,321
Public health	300	440	623	725	797	950	1,024	1,228
State management	328	435	580	659	691	797	898	1,093
Financial intermediation	–	–	1,454	1,804	1,935	2,321	2,791	2,746
<b>Average nominal wage growth</b>	<b>42.4</b>	<b>18.2</b>	<b>16.5</b>	<b>12.3</b>	<b>12.0</b>	<b>16.6</b>	<b>14.0</b>	<b>16.2</b>
Industry	55.0	18.7	39.6	17.1	10.0	13.0	–3.0	17.7
Construction	16.7	29.0	8.4	11.7	5.6	24.3	7.9	44.0
Agriculture and forestry	39.3	13.8	20.6	–13.3	25.5	33.4	26.6	–17.5
Transportation	36.0	11.2	21.2	9.3	14.6	19.2	6.8	–3.2
Trade	39.2	18.2	15.1	8.8	17.2	17.3	11.0	12.6
Education	60.9	9.8	22.8	17.9	8.0	17.3	9.7	16.0
Science	62.9	23.3	18.4	12.3	15.1	29.6	10.8	37.1
Culture, arts and sport	59.9	13.3	16.8	18.3	13.4	22.0	8.9	22.1
Public health	60.8	21.2	22.5	16.5	9.8	19.3	7.8	20.0
State management	61.3	14.6	26.7	13.5	5.0	15.3	12.7	21.7
Financial intermediation	–	–	27.4	24.1	7.2	20.0	20.2	–1.6
<b>Average real wage growth</b>	<b>30.1</b>	<b>13.5</b>	<b>18.4</b>	<b>12.8</b>	<b>7.7</b>	<b>13.1</b>	<b>5.8</b>	<b>7.3</b>
Industry	41.7	14.0	41.8	17.5	5.8	9.6	–10.0	7.8
Construction	6.7	23.9	10.1	12.1	1.5	20.5	0.2	33.0
Agriculture and forestry	27.3	9.3	22.5	–12.9	20.7	29.3	17.5	–23.8
Transportation	24.3	6.7	23.2	9.7	10.2	15.6	–0.8	–11.0
Trade	27.3	13.6	16.9	9.2	12.7	13.7	3.0	4.0
Education	47.1	18.4	24.7	18.4	3.9	25.6	1.9	7.1
Science	–	5.5	20.3	12.8	10.6	13.7	2.9	26.6
Culture, arts and sport	–	8.8	18.6	18.8	9.1	18.3	1.1	12.7
Public health	46.9	16.4	24.5	17.0	5.6	15.6	0.1	10.8
State management	47.5	10.1	28.7	13.9	0.9	11.8	4.6	12.4
Financial intermediation	–	–	29.4	24.5	3.1	16.3	11.6	–9.2
<b>Consumer price inflation</b>	<b>9.4</b>	<b>4.1</b>	<b>–1.6</b>	<b>–0.4</b>	<b>4.0</b>	<b>3.2</b>	<b>7.7</b>	<b>8.3</b>

Note:

Average real wage growth is the nominal wage growth deflated by consumer price inflation.

Source: IMF (2006b).

TABLE A8  
Average Retail Prices of Selected Consumer Goods and Services (in VND)

<i>Goods and Services</i>	<i>Unit</i>	<i>1991</i>	<i>1995</i>	<i>2000</i>	<i>2003</i>
Paddy	kg	1,291	1,957	1,853	2,110
Pork	kg	10,519	22,972	22,937	27,642
Beef topside	kg	11,893	27,221	35,541	47,558
Chicken carcass	kg	9,369	21,409	24,286	24,415
Carp, fresh	kg	5,974	15,450	17,161	20,891
Freshwater shrimps	kg	8,868	30,515	44,892	40,706
Green beans	kg	4,309	7,378	8,728	9,859
Soya beans	kg	2,978	5,030	5,799	6,306
Shelled nuts	kg	5,273	8,073	9,299	10,362
Mackerel	kg	5,608	21,933	33,627	37,844
Soya curd	kg	2,071	3,781	4,599	4,907
Fish sauce	litre	1,670	3,907	6,351	6,648
White sugar	kg	4,378	6,755	5,049	6,556
Cotton fabrics	kg	3,469	6,233	9,102	9,517

Source: GSO, Vietnam.

TABLE A9  
Government Revenues

	<i>1995</i>	<i>1997</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
(In trillions of VND)								
<b>Total revenue and grants</b>	<b>53.4</b>	<b>65.4</b>	<b>90.7</b>	<b>103.9</b>	<b>121.7</b>	<b>141.9</b>	<b>166.9</b>	<b>183.0</b>
<i>1. Tax revenue</i>	<i>40.0</i>	<i>49.7</i>	<i>65.4</i>	<i>75.9</i>	<i>90.2</i>	<i>102.3</i>	<i>118.8</i>	<i>133.0</i>
Corporate income tax	7.0	11.6	22.2	25.8	29.3	32.6	37.3	41.6
Individual income tax	0.5	1.5	1.8	2.1	2.3	2.9	3.7	4.1
Value-added tax	7.8	11.8	17.1	19.3	25.9	32.7	41.1	47.2
Import and export taxes	13.1	13.5	13.4	17.5	21.9	21.3	20.4	21.3
Other tax on trade	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Other taxes	10.9	11.3	10.8	11.1	10.6	12.6	16.1	18.7
<i>2. Non-tax revenue</i>	<i>11.8</i>	<i>13.1</i>	<i>23.3</i>	<i>26.0</i>	<i>29.2</i>	<i>37.6</i>	<i>46.2</i>	<i>48.1</i>
(In percent of GDP)								
<b>Total revenue and grants</b>	<b>23.3</b>	<b>20.8</b>	<b>20.5</b>	<b>21.6</b>	<b>22.7</b>	<b>23.1</b>	<b>23.4</b>	<b>22.7</b>
<i>1. Tax revenue</i>	<i>17.5</i>	<i>15.8</i>	<i>14.8</i>	<i>15.8</i>	<i>16.8</i>	<i>16.7</i>	<i>16.7</i>	<i>16.5</i>
Corporate income tax	3.3	3.7	5.0	5.4	5.5	5.3	5.2	5.2
Individual income tax	0.2	0.5	0.4	0.4	0.4	0.5	0.5	0.5
Value-added tax	3.4	3.8	3.9	4.0	4.8	5.3	5.8	5.9
Import and export taxes	5.8	4.3	3.0	3.6	4.1	3.5	2.9	2.6
Other tax on trade	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other taxes	4.7	3.5	2.4	2.4	2.0	2.1	2.4	2.3
<i>2. Non-tax revenue</i>	<i>5.1</i>	<i>4.2</i>	<i>5.3</i>	<i>5.4</i>	<i>5.5</i>	<i>6.1</i>	<i>6.5</i>	<i>6.0</i>

Source: IMF (2006b).

TABLE A10  
Government Expenditures

	1995	1997	2000	2001	2002	2003	2004	2005
	(In trillions of VND)							
<b>Total expenditures</b>	<b>55.1</b>	<b>77.6</b>	<b>112.6</b>	<b>127.9</b>	<b>142.3</b>	<b>172.1</b>	<b>190.2</b>	<b>225.0</b>
<b>1. Total current expenditures</b>	<b>42.5</b>	<b>51.3</b>	<b>70.1</b>	<b>77.0</b>	<b>84.2</b>	<b>103.2</b>	<b>117.8</b>	<b>135.8</b>
<i>Social services</i>	18.2	23.7	30.7	37.4	40.7	50.1	53.9	56.9
Education	4.7	7.2	9.9	12.0	13.8	17.7	19.1	20.5
Health	2.4	3.0	3.5	4.2	4.7	5.4	6.3	6.9
Pensions, social relief	7.4	9.2	10.7	13.4	13.2	16.6	17.3	17.4
Other	3.8	4.3	6.6	7.7	9.1	10.5	11.2	12.2
<i>Other expenditures</i>	24.3	27.6	39.4	39.6	43.5	53.1	63.9	78.9
<b>2. Capital spending and lending</b>	<b>12.6</b>	<b>26.4</b>	<b>42.5</b>	<b>50.8</b>	<b>58.1</b>	<b>68.8</b>	<b>72.3</b>	<b>89.2</b>
Capital expenditures	12.1	19.5	32.6	40.2	45.2	51.0	59.0	66.0
On-lending	0.5	6.9	9.9	10.6	12.8	17.8	13.3	23.2
	(In percent of GDP)							
<b>Total expenditures</b>	<b>24.1</b>	<b>24.8</b>	<b>25.5</b>	<b>26.6</b>	<b>26.6</b>	<b>28.0</b>	<b>26.7</b>	<b>27.9</b>
<b>1. Total current expenditures</b>	<b>18.6</b>	<b>16.3</b>	<b>15.9</b>	<b>16.0</b>	<b>15.7</b>	<b>16.8</b>	<b>16.5</b>	<b>16.8</b>
<i>Social services</i>	8.0	7.6	6.9	7.8	7.6	8.2	7.6	7.0
Education	2.1	2.3	2.2	2.5	2.6	2.9	2.7	2.5
Health	1.0	1.0	0.8	0.9	0.9	0.9	0.9	0.9
Social subsidies	3.2	2.9	2.4	2.8	2.5	2.7	2.4	2.2
Other	1.6	1.4	1.5	1.6	1.7	1.7	1.6	1.5
<i>Other expenditures</i>	10.6	8.8	8.9	8.2	8.1	8.6	9.0	9.8
<b>2. Other non-interest exp.</b>	<b>5.1</b>	<b>4.5</b>	<b>5.0</b>	<b>4.2</b>	<b>4.0</b>	<b>4.3</b>	<b>3.9</b>	<b>6.3</b>
Capital expenditures	5.3	6.2	7.4	8.4	8.4	8.3	8.3	8.2
On-lending	0.2	2.2	2.2	2.2	2.4	2.9	1.9	2.9

Source: IMF (2006b).

#### APPENDIX B

#### Employment Coefficient of Exports and Imports

*The employment coefficient of exports is calculated as follows:*

$$\sum_{i=1}^n \left( \frac{JO_i}{GO_i} \frac{EX_i}{EX} \right),$$

where:  $JO_i$  is employment of industry  $i$ .

$GO_i$  is output of industry  $i$ .

$EX_i$  is exports by industry  $i$ .

$EX$  is total exports.

*The employment coefficient of imports is calculated as follows:*

$$\sum_{i=1}^n \left( \frac{JO_i}{GO_i} \frac{IX_i}{IX} \right),$$

where:  $JO_i$  is employment of industry  $i$ .  
 $GO_i$  is output of industry  $i$ .  
 $IM_i$  is imports by industry  $i$ .  
 $IM$  is total imports.

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