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**Growth with Equity: "Double Click"**  
**for High Economic Growth and Quick**  
**Poverty Reduction**

*The Case of Vietnam*

Do Duc Dinh  
Developing Economies Study Department  
Institute of World Economy, Hanoi

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UNRISD, Palais des Nations  
1211 Geneva 10, Switzerland

Tel: +41 (0)22 9173020  
Fax: +41 (0)22 9170650  
[info@unrisd.org](mailto:info@unrisd.org)  
[www.unrisd.org](http://www.unrisd.org)

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Since the late 1960s, though there have been in the world various theories on development, particularly the growth or “trickle down” theory, the Washington Consensus and the socialist “egalitarian” doctrine in the mainstream development economics, there has been no place for a double effect thinking that tries to solve the two critical and contrast issues at one time - high economic growth and rapid poverty reduction in a developing country. During such a long period of time there have been only two principal choices: The first relates to the “trickle down” and/or the Washington Consensus theories that promoted growth with a widening gap of the rich and the poor or, in other words, the not-for-poor growth model; and the second based on the “egalitarian” theory which focused on redistribution rather than on production and business, hence resulting in equality without growth or, as it was ironized by some economists, “equality in poverty”.

Today, the world has witnessed at least one country - Vietnam – that has proved the ability to turn this dilemma into a double gain policy: *the Policy of Growth with Equity* which has successfully turned a significant part of the benefits and opportunities of high economic growth into rapid poverty reduction. This new development model which has been successfully tried, mainly in practice rather than in theory since there has been no such a theory so far, seems to be more appropriate to developing economies than the old theories. Therefore it could arguably be recognized as the alternative to the “trickle down” theory, the Washington Consensus and/or the “egalitarian” theory, for it has tackled or “*double clicked*” on not just one problem, but on both the two very essential issues of socioeconomic development with an aim to achieve both, the high economic growth and quick poverty reduction at one time in one developing country.

Bearing in mind that new and successful case of development, the author of this paper is making an effort to find the evidence and approach of this “*double click*” development alternative which has been implemented through the process of 20 continuous years of renovation in Vietnam from 1986 to 2007, and very possibly beyond. In order to do so, the author will firstly trace back to the old model of low growth with increased poverty adopted in Vietnam prior to the renovation period which started in 1986; and secondly, look at the renovation model of growth with equity development which has become the principal drive of rapid poverty reduction in Vietnam; then thirdly, concentrate on the approaches that Vietnam has adopted to address its poverty; and finally, draw out some conclusions which may be used as the experiences, lessons and/or recommendations for Vietnam and other developing countries that really want to make double gains with one policy to achieve both the high economic growth and rapid poverty reduction at one time under their own conditions and in the current context of globalization.

## **I. The Old Model of Low Growth with Increased Poverty Prior to Renovation**

After the liberation of the whole country in 1975 and the reunification in 1976, Vietnam was in the high mood of victory, yet facing at the same time serious difficulties, since it was faced with a new and very difficult task, that is, the reconstruction of the terribly war-torn country.

One of the most important questions at the time was how to manage such an economy. Some people realized the old system of management was no longer appropriate and recommended change from a war-time to a peace-time management system, while many defended the old system, trying to prove that what was good for the war could be good

for the peace. The latter made up the majority, their voice was heard, and the old management system was retained.

The old system was characterised by following typical features:

1. The centrally planned management mechanism which led the economic performance by orders and commands, neglecting and discouraging all market impulses and motivations;
2. The relatively equal redistribution system by which everyone got almost the same slice of the pie, but on the other hand it did not encourage the good worker to work better, hence demolishing the work motivation and prolonging the low productivity system;
3. The subsidized regime which turned a large number of people to be lazy, not working hard and working creatively, just waiting for their turn of allowance to come;
4. The biased international relationship by which the country was depending heavily on only few old socialist countries, hence losing most of the opportunities offered by the world at large.
5. Following the old system, Vietnam was curbed by the US embargo, hence facing more and more serious difficulties and hardship.

Though the planned system did help Vietnam to maintain the economy, especially the production of food and essential consumer goods to serve the cause of the struggle for independence during the war time, it did not help much during the post-war period when the country no longer relied on the minimum needs, and required a better life. In contrary to the increasing needs, the prolonging of the old system had worsened the social and economic conditions, leading to the socio-economic crisis which was for the first time officially recognized by the Government at the end of the 1970s. During this period, GDP per capita was about US\$100 a year. Inflation accelerated, reaching 600-700 per cent per annum. Agricultural production declined, the country had to import around one million tons of food but still could not provide sufficient food for the people (during the war time when the country was separated into the North and the South, each part had to import roughly around one million tons of food a year). The lack of consumer goods was widespread, while industrial production faced a sharp drop. The living conditions of most of the people deteriorated, except for some speculators who benefited from others' difficulties and those whose living was relatively subsidized by the Government.

The difficult situation at the end of the 1970s generated strong pressure for reforms at the beginning of the 1980s, though not a small number continued to protect the old pattern. Some partial reforms were adopted in a number of areas like agriculture, industry, price, wage, and currency, but they were not yet throughout the whole economy. The partial reforms were insufficient to reinforce each other, resulting in a mixed performance.

The most important reform during this period was the implementation of *the contract system in agriculture*, which emerged for the first time in Vinh Phu Province during the first half of the 1960s, but it was stopped for it occurred in a wrong time when the country was not liberated and the old management system was stabilized, not ready for change. Ten years later the contract system appeared again by the end of the 1970s. At this time, it was developed not just in one province, but in several provinces of North Vietnam. The main idea of the contract system was to change the inefficient performance of the cooperatives from collective management to household contracts, by

which the cooperatives changed their role from direct intervention in production and business to indirect management, while the households took charge of the direct production and business based on long term contracts from 20 to 99 years depending on the length of crops. Under the old system, all the results of production and business belonged to the cooperatives, the members were allowed to get their shares based on their work points and work days, which were normally below their labour, hence did not motivate them to work hard. In contrary, under the new contract system, the households were fully responsible for their production and business, they had to pay only certain amount of their products to the cooperatives as cooperative funds and a low tax rate to the Government, and kept the rest of the results for their own, including using the extra parts of their results for free market sale at market price which was four times higher than that fixed by the State under the subsidized price scheme. This new policy offered important incentives and encouraged the cooperative members to work as hard as possible to get as much as they could.

As a result of the contract system, each year rice production increased about one million tons, almost equal to the amount of food imported, and created millions of jobs, even without much additional physical investment, thus helping reduce the serious food shortage and the large unemployment. For that reason, the contract system was then transformed into a nation-wide policy for agricultural development since 1981.

In industry, some subsidies were gradually reduced and abolished along with the *expansion of the autonomy of industrial enterprises*, most of which were State-owned. Under this policy, industrial enterprises were allowed to have greater decision-making, including the access to capital and labour markets, the supply and distribution of their inputs and outputs, and even the decision of their products' prices. However, due to the heavy dependency on State subsidies and the poor development of the markets at the time, only a small number of enterprises improved their performance, most others continued to make loss and rely on State subsidies. In many cases, enterprises could not provide sufficient jobs for their workers, while they were, under the socialist management, not allowed to lay off the workers, so tens of thousands of workers became semi-unemployed and lived with what was called the "hungry salary".

The most unsuccessful reform during this period was *the package of price, wage and currency adjustments*, which were tried twice in 1981 and again in 1985. The Government made great efforts to combat inflation, to raise the wages of the workers, and to devalue the currency, expecting that these measures combined would help stopping the high rate of inflation, improving living conditions of the people. The reform started from the change of the Vietnamese currency (the Dong) from ten to one (1000%). Each time the adjustments were made, the economic and social conditions were improved a little and for a few months, then quickly deteriorated, with a continuing drop of industrial production, increasing shortage of consumer goods, and insufficient supply of food (even though there was an improvement in agricultural production).

Stronger and stronger debates went on, many of which referred to the renovation of thinking as the necessary driving force of all reforms, without which reforms could not succeed. Various alternatives were discussed. Those who did not want to change emphasized the negative impacts and failures of the reforms; while an increasing number of people argued that though not all the partial reforms were successful, "some initial achievements" were made. The majority started to concentrate that *the old system which was characterized by such anti-development features as centralization,*

*bureaucratization, subsidization, egalitarianism and inward-looking* could no longer work in the new situation when the nation went out of war, in need of development and integration rather than dependency and subsidy. They therefore called for further reforms, especially the reform of thinking to identify proper alternatives.

The difficulties during the 1975-1985 period became the strongest pressures and the most critical lessons for Vietnam to find out the alternative policy of renovation to be adopted since 1986 which has led to the current successful domestic reform and international integration.

## **II. The New Model of High Growth With Equity since Renovation**

The Sixth Congress of the Vietnam Communist Party which was held in 1986 made a strategic and determined choice that the country was to move forward to implement a “*comprehensive renovation*” (Doi Moi Toan Dien), though recognising it would be very difficult to realise. This decision was the turning point, marking the transformation of the Vietnamese economy from a “centralized, bureaucratic and subsidized” system toward a “*multi-sector commodity economy*,” which implied the recognition of the multiple ownership structure and the commodity market. With *the multiple ownership structure*, no longer was only one form of ownership recognised, that is public ownership, although State ownership was still confirmed as the leading one. Under the new perception, *ownership no longer represented the content of the society, instead it became an instrument* that would be used as appropriate. This new perception became the initial basis for the gradual elimination of the monopoly ownership mechanism that has been protected so long in the country. As a result, ownership was diversified to include the six main forms such as the State, private, collective, individual, joint venture, and foreign ownership.

With the acceptance of the commodity market, then the market economy, the market principles have been recognised and most of the markets were accepted, including the labour and capital markets which were hardly accepted previously for it was supposed to be the main source of exploitation. Today, enterprises including State and private are no longer limited by the number of workers and the sum of capital as previously, instead they hire as many workers and invest as much capital as they can. As the labour market is developed, labour institutions have also been developed, including the freer labour law and the more active trade union movement.

This new concept of ownership stimulated people from every sector of the society to work with the State to carry on the tasks of the 1986-1990 Five Year Plan, including the recovery from the socio-economic crisis, the stabilization of the political, social and economic situation, and the preparation of prerequisites for development. In accordance, the planning system has also been changed from fully direct plan to half direct or indicative plan, by which the direct plan is applied to Government budget, while the indicative plan is applied to non-Government investments.

A number of very important short-term and long-term macro-economic policies and major measures were adopted during the 1986-90 period, including:

- *The application of positive interest rates and the reduction of money supply* aiming to combat the high inflation of 700-800% per annum;
- *The implementation of the three major economic programs* to overcome the serious shortage and to promote the development *in the three areas of essentially economic and social importance, namely the Program for Food Production and Processing,*

*the Program for Consumer Goods Production, and the Program for Export Development.*

- *The opening of the economy through the issuance of the Foreign Direct Investment Law in 1987 to attract foreign capital and to expand the markets for Vietnamese exports and imports.*

With these measures, and the implementation of the policy of agricultural contracts and the expansion of industrial enterprises' autonomy, Vietnam had, by the end of the 1980s, recovered from the social and economic crisis and gained "initial important achievements" such as slowing-down of inflation, improvement in the supply of food and consumer goods, starting to attract foreign direct investments, the development of foreign trade, and the preparation of initial conditions for subsequent development.

Following the five years of recovery and stabilization, the Ten Years of Social and Economic Development Strategy (1991-2000) brought Doi Moi (Renovation) to a higher stage through the implementation of the *market mechanism* where *the role of the State was changed to be more indicative, with less direct intervention* or, in practical management, the State gradually reduced its direct intervention to focus mainly on public investments, whilst adopting more indirect management measures on private investments, using more market instruments such as tax and other incentives. The multi-economic-sector economy continued to be developed. Market interest and exchange rates were introduced.

During this period, two problems occurred: the drop of school enrolment and the lack of health care for the poor due to the reduction of Government spending for these two areas as the market mechanism was applied. After a few years under the new market mechanism, the Government realized that though the market economy has significantly improved the economic performance, it has not been in favour of education and health care unless the Government continued to take care of these areas, and for that reason, the Government again raised its spending for education and health care to re-activate the development in these two areas.

Equitisation has been increasingly strengthened year after year, though not as fast as a number of people expected, due to both social and economic matters. By the end of 2006, the number of equitized State-owned enterprises (SOEs) increased to 2,935, most of these were small and medium enterprises, the capital of each was less than VND10 billion (less than US\$600,000 each), the total equitized capital was thus about 12% of total State-owned capital. This situation however continues to maintain the low rate of efficiency of the unequitized SOEs, hence it calls for further equitization. But such "further" equitization should hardly be realized in a "big bang" approach without big risks as it was planned to equitize 20 general corporations and 400 large and crucial SOEs by the second half of 2007.

One of the main reasons of the slow equitization in Vietnam is the protection of the interests of the workers. That is why the Government has been very careful about the "big bang" approach to avoid the laying off large numbers of workers, which would in its turn lead to the increased unemployment, and hence increased poverty. This again means that in Vietnam, each economic policy has always been placed under high social consideration.

The stock markets were opened in Ho Chi Minh City and Hanoi, mobilizing a relatively large amount of money provided by domestic enterprises, coming in from foreign

sources and the money hidden under the people's mattress, with a total of roughly VND30,000 billion or US\$20 billion, equivalent to about 1/3 of the current Vietnam's GDP. In 2006 and at the quarter of 2007, these markets turned to be so hot with a growth rate of over 70%, much higher than the normal rate in world stock market of around 20%. However, from the second quarter of 2007 to the first quarter of 2008, the sharp downturn of the stock markets and the higher rate of inflation shows new signs of an unstable and bubble economy which should not be overlooked. Though there is a great need of capital to serve the fast growing economy, the risk of an exploded bubble economy as the one that occurred in Asia in 1997-1998 should be avoided.

The *new industrialization and modernization strategy* no longer saw heavy industries as a fixed target or the key to development, instead it has gradually moved to base on comparative advantage. Under this strategy, industries have been diversified to include not only heavy industries, but also labour intensive and natural resource-based industries, like textile and garments, food production and processing industries, fishery and cash crops such as tea, coffee, rubber and others. Greater mobilization and allocation of resources for industries has been made, including both internal and external resources, through the implementation of various investment laws, the increase of savings and by both sources "the State and the people working together" under which all the sectors in the economy contribute their parts for the development of the country. As for the area of food production, fishery and cash crops, the Government encouraged scholars from research centres and universities to identify proper area of land and made plans for the development, offering incentives and assistances such as freeing of land taxes, signing of long-term land contracts for up to 99 years, or making low-interest rate loans through the Social Policy Bank or the Agricultural Bank, so the peasants would be able to grow crops and raise fish, either by their individual household efforts or by setting up farms.

In the external sector, the Government reduced the monopoly of State-owned trade companies and allowed companies from every sector, including private and foreign firms, to take part in export and import activities, cut all taxes on export and reduced taxes for intermediate goods such as materials for processing and assembled industries. These policies motivated companies and households from all sectors to increase their production for export, hence leading to the quick expansion of export of about 20% per annum and reduced the trade deficits.

Though Vietnam decided to develop the market economy, under the term "socialist-oriented market economy", it continued to apply *the concept of socio-economic comprehensive development in which economic growth is combined with social equity*. This has become one of the most typical features of Vietnam's renovation policy through which *the high economic growth has been increasingly and effectively used to serve the social developments*, reflected in the following key elements:

1. Using economic growth as the facilitator for the implementation of social objectives, and in turn using social development as the driver for economic growth to ensure that social equity is translated into reality and that social progress is accompanied with every step of economic growth. About 24-25% of the yearly national budget has been earmarked for social program.
2. Confirming the human as the centre of development, therefrom giving the first priority for the development of education, training, science and technology, or the development of human resources as a prime national policy to assure social sustainable development.



3. Encouraging all the people to enhance their capabilities and potentials, to become rich legally in the market economy, to contribute the elimination of hunger and the alleviation of poverty, to assist the poor, the disable and the people with difficulties.

With these efforts, Vietnam has achieved the following results in social development:

- Overcoming the hardship of the post-war years during the 1970s, the severe socio-economic crisis in the 1980s, and the US embargo since the 1970s to the mid-1990s, and visibly improving the people's livelihoods. After the war, it was estimated that about 3 million Vietnamese had been killed, 4 million wounded, 4.8 million have fallen victim to Agent Orange/Dioxin, suffering from virtually incurable diseases and deformities, large amount of landmines found scattered in many areas as hidden killers of civilians in many villages, over 300,000 Vietnamese missing, and the country's major infrastructures were destroyed. The economy was in a terrible and desperate shape with high inflation of around 800% per year, GDP per capita of less than US\$100 per annum, most people suffered from the lack of essential consumer goods and chronic food shortage, and as a result, we had to import approximately one million tons of food a year, while the Soviet aid was cut and the US embargo continued to be a bar to the development of the country up to 1994. The overcoming of these difficulties has been really a big achievement of Vietnam in its cause of renovation.
- The State continues to play the leading role in the fields of education and healthcare. As a result, the primary education universalization program was completed in 2000. At present, the junior secondary education universalization program is being carried out in 34 out of 64 provinces and cities. Enrolment increased from 14.9 million in the 1994-1995 academic year to 23.5 million in the 2006-2007 academic year, while the university and college student population increased from 203,000 to 1,405,000 in the same period. Number of universities and colleges increased from 109 in 1995 to 255 in 2005. The literacy is as high as 95% of the national adult population.

Certain epidemic diseases have been put under strict control. Over the past decade, the child malnutrition rate has gone down from 45% to 25%. The infant mortality rate declined from 44% in 1990 to 16% in 2006. The population growth rate was reduced by 1.23%. The average life expectancy increased from 62 years in 1990 to 72 years in 2006. The country's Human Development Index (HDI) jumped up from 0.498 in 1991 to 0.688 in 2000 and 0.810 in 2006.

Major parts of the infrastructure in rural areas, where over 70% of the population lives, were built, including electricity, roads, schools, communication and health care centres. By 2006, 89% of the villages have electricity (compared with 60.4% in 1994), 96.7% villages have road (compared with 87.9% in 1994), 99.6% villages have primary schools and 91.2% have junior secondary schools (compared with 76.6% in 1994), 94.4% have telephone communication (compared with 82.6% in 2001), and 99.3% have health care centres.

Equality and democratic participation were also developed. Over 90% of the population joined the election events. More than 300 mass and people's organizations were set up at the national level and tens of thousands at local levels. There are more than 600 national and local newspapers to keep the population updated of local and international developments. All the citizens are entitled to freedom of religion and, as a result,

there are currently about 13 million Buddhists, 5.7 million Catholics, 2.3 million Cao Dai believers, 2 million Hoa Hao followers, 421,000 Protestants, and Muslims. Women's role and status has been improving in the society. At present, Vietnam is the leading country in Asia in terms of women's representation in the National Assembly (the Parliament) – with 25% of women deputies. Deputies to the National Assembly are from different ethnic minority groups. The implementation of “grassroot democracy” has enabled the people to directly participate in decision-making, monitoring and implementing process at their localities. Institutional democracy is aiming to enable each and every individual to master his or her own destiny as well as that of the country as a whole.

Looking to the future, the Vietnam Communist Party at its 10<sup>th</sup> Congress held in April 2006, had set up important tasks for the country in the forthcoming period. The main objective was to lift up the country from underdeveloped status by the year 2010 and to turn the country into a fundamentally industrialized one with modernizing orientation by the year 2020. Other major objectives included better development of education and health care, and further reduction of poverty to 10-11% by the year 2010.

In the area of foreign economic policy renovation, *Vietnam has increasingly opened to and integrated with the regional and the world economy*, enlarging its trade and investment share, joining ASEAN and its AFTA Scheme, participating in APEC, signing the Bilateral Trade Agreement with the United States, and entering the World Trade Organization (WTO) as a full member.

One of the most important turning points for the transformation in Vietnam's foreign economic policies was the loss of the traditional markets in the former Soviet Union and East European socialist countries which had accounted to as much as 90 percent of Vietnam's total foreign aid and trade up to the end of the 1980s. This big challenge resulted in a *new and flexible policy of diversification and multilateralisation of directions and forms of foreign economic relations*. Priorities for the cooperation with the old socialist countries were then removed and turned to the increased cooperation with dynamic countries in the Asia-Pacific Region and the large economic powers.

Another dimension was the scarcity of Vietnam's domestic savings and the lack of modern technologies needed for industrialization and modernization. Prior to the renovation, most of the support that Vietnam received was in the form of aid, the largest part of which came from the very generous Soviet assistance, while gains from trade and foreign investment were very small. When the old Soviet Union and East European socialist countries collapsed, that source of generous aid ended. Vietnam had instead turned to rely more to *foreign trade and investments*, which have been seen as *engines of growth* elsewhere, particularly in the Asian newly industrialized economies (NIEs). The Asian-Pacific Region has, since the renovation started, accounted for about 3/4 of Vietnam's total foreign trade, FDI and ODA. After 15 years of renovation since 1986, Vietnam has achieved two main successes: (1) recovering from the war-torn conditions and the socio-economic crisis, particularly the serious food and consumer goods shortage and the high inflation rates; and (2) laying the foundation for long-term development with relatively high and stable GDP growth, sectoral shift towards industry and service, increasing the rate of savings, the development of commodity, labour and capital markets and the creation of an appropriate system of laws, the improvement of the living conditions of most of the people, and last but not least, the expansion of

Vietnam's foreign economic relations through increasing integration into the regional and world economies.

As it is shown in *Table 1*, *food production* increased nearly four times in 30 years, from 11.4 million tons in 1975 to 39.7 million tons in 2006, nearly 90 percent of which is in rice production, turning Vietnam from a country of serious food shortage that had to import roughly a million tons a year during the 1970s to be the second world's largest rice exporter, estimated to export about 5 million tons of rice by the end of 2007.

**Table 1: Food Output (Million tons)**

Year	1975	1980	1985	1990	1995	2000	2005	2006	2007*
Food	11.4	14.4	18.2	19.9	26.1	34.5	39.6	39.7	
Paddy	10.3	11.6	15.8	19.2	24.9	32.5	35.8	35.8	
Rice Export				1.4	1.9	3.4	5.2	4.5	

\* Preliminary figure.

Source: Statistical Yearbook of Vietnam, General Statistics Office, 2007; VER, March 2001, p.41, Jan. 2003, p.41, August 2003, p.28; Nhan Dan Daily, 23 Oct. 2007; mofa.gov.vn

*Inflation* reached its peak of over 800 percent in 1986, the starting year of renovation, then dropped to the lowest rate of -0.6 percent in 2000, leading to a new problem - *deflation* - the negative side of the inflation control efforts. To reverse this new trend, Vietnam adopted a number of measures, particularly those relating to the boost of demand, including tax reduction. Thanks to these efforts, inflation was gradually raised again to 0.8 percent in 2001, then 8.4 percent in 2005 and 6.6 percent in 2006. However, preliminary figure showed that the inflation rate in 2007 already reached 12.6 percent (*Table 2*), passing the single digit target that the Government of Vietnam has tried to keep with an aim to secure a stable environment for business at the same time with the motivation for investment expansion.

**Table 2: Inflation Rates (%)**

1986	1990	1995	2000	2005	2006	2007*
875	67.1	12.7	- 0.6	8.4	6.6	12.6

\* Preliminary figure.

Source: Statistical Yearbook of Vietnam, General Statistics Office, 2007; Economic Studies, April 2001; VER, February 2002, March 2003; Nhan Dan Daily, 23 Oct. 2007, 01 Jan. 2008; mofa.gov.vn

Of fundamental and long-term significance for Vietnam is *the high growth rates* of the economy during the 1990s. As a result of the renovation, Vietnam's GDP growth rates were raised from around 3 percent during the second half of the 1980s to 8 and 9 percent during the first half of the 1990s. After that it dropped to about 5 percent in 1998 and 1999, mostly as a result of the Asian financial crisis, then recovered again and reached 8.4 percent in 2005, and possibly 8.5 percent in 2007 (*Table 3*). It is likely that Vietnam will continue to achieve the GDP growth rates of about 8 to 9 percent from 2008 to 2010 and beyond.

As a result of the increasing economic growth from 2-3 percent during the 1980s to 7-9 percent per annum recently and the declining of annual population growth from over 3% during 1980s to 1.2% in 2006 and 2007, Vietnam's GDP per capita increased from around US\$100 during the 1980s to US\$720 in 2006 and US\$833 in 2007 (preliminary figure).

**Table 3: GDP Growth Rates (%)**

1987	1990	1995	2000	2005	2006	2007*	2008**
3.4	2.3	9.5	6.7	8.4	8.2	8.5	8.5

\* Preliminary figure.

\*\* Forecast.

Source: Statistical Yearbook of Vietnam, General Statistics Office, 2007; World Economic Problems, August 2000; VER, Feb. 2002, March 2003; Nhan Dan Daily, Feb. 2001 & 23 Oct. 2007, 01 Jan. 2008; mofa.gov.vn

The *sectoral structure* as shown in *Table 4* reflects significant advance in the direction of industrialisation. In 1986, agriculture accounted for 40.2 percent of the total GDP, while industry was 27.4 percent and services 32.4 percent; by 1990, thanks to the improvement in agriculture after a decade of the implementation of the contract system, the share of agriculture continued to expand and reached its peak of 42.1 percent, services was also improved and raised to 35 percent, industry grew slowly and dropped to 22.9 percent; up to the year 2007, industry and services did better and enlarged their shares to 41.8 and 38.2 percent respectively, while that of agriculture dropped to 20 percents. The dragon's path is clearer ahead: If Vietnam will not be able to achieve the target to be a fundamentally industrialized nation by the year 2020 as projected, it will surely become a newly industrialized country (NIC) in about one or two decade(s) afterwards.

**Table 4: Sectoral Structure Transformation (%)**

Year/Sector	Industry	Agriculture	Service
1986	27.4	40.2	32.4
1990	22.9	42.1	35.0
2000	36.6	24.3	39.1
2001	37.8	23.6	38.5
2002	38.3	23.6	38.1
2005	40.9	21.02	38.01
2006	41.5	20.4	38.08
2007*	41.8	20.0	38.2

\* Preliminary figure.

Source: Statistical Yearbook of Vietnam, General Statistics Office, 2007; The 2001-2010 Socio-Economic Development Strategy, ND 21 April 2001; Directions and Tasks of 2001-2005 Socio-Economic Development Plan, Nhan Dan Daily, 22 April, 2001 & 23 October 2007; VER, March 2003; mofa.gov.vn

*Table 5* on *savings* shows another capacity of the dragon: Vietnam's saving ratio to GDP, one of the most important factors for economic growth, was nearly trebled in seventeen years, from 15 percent in 1991 to 40.6 percent in 2007.

**Table 5: Savings (% of GDP)**

1991	1995	2000	2005	2006	2007*
15	27.1	27	39	40	40.5

\* Preliminary figure.

Source: Statistical Yearbook of Vietnam, General Statistics Office, 2007; The 2000-2010 Socio-Economic Development Strategy, Nhan Dan Daily, 21 April 2001; VER, March 2001, March 2003, p.9; Nhan Dan Daily, 23 Oct. 2007, 01 Jan. 2008; mofa.gov.vn

In relation to *ownership*, as reflected in *Table 6*, in 1990 the Vietnamese economy was owned mostly by Vietnamese with the public share accounting for 31.7 percent, the non-public 63 percent, and foreign direct investment (FDI) 5.3 percent. In 2005, FDI rose to 15.9 percent and public ownership to 38.5 percent, while the non-public dropped to 45.7 percent. These shares continue to confirm the large and leading role of the State sector, the increasing role of FDI, while reflecting the significant change of the non-public sector. Looking deeper into the non-public sector, one may notice that the collective and the household economies are currently giving way for the private sector to grow. Though having been officially recognized and developed recently since 2001 when the Enterprise Law was proclaimed, this sector has quickly grown from nil to nearly 10% of GDP in just about half a decade. In the coming decades, the private sector will certainly play an increasingly important role, or the key role, in the fast expanding market economy of Vietnam.

**Table 6: GDP Shares by Ownership (%)**

Year/Ownership	Public	Non-Public**	FDI
1990	31.7	63.0	5.3
1995	40.2	53.5	6.3
2000	38.5	48.2	13.3
2005	38.4	45.7	15.9
2006			
2007*			

\* Preliminary figure.

\*\* Non-public sectors include the collective, household and private economies; in 2005 the GDP percentages of these 3 areas in GDP were 6.8%, 30% and 8.9% respectively.

Source: Statistical Yearbook of Vietnam, General Statistics Office, 2007; World Economic Problems, August 2000; Nhan Dan Daily, 23 Oct. 2007; mofa.gov.vn

In the area of foreign economic relations, *trade* has been developed not only through the growth in volume and value, but also in the diversification of exports. *Table 7* shows that in two decades and a half, from 1981 to 2006, the growth of Vietnam's total value of foreign trade was nearly 50 times, while that of export was nearly 100 times, hence reducing the trade deficits ratio (deficits/total trade value) from \$1.0 billion/\$1.7 billion in 1981 to \$5.1 billion/\$84.7 billion in 2006. The total trade turnover of \$84.7 billion is already equivalent to roughly 140% of the GDP of \$64 billion. Under the policy of export diversification, a number of agricultural products have been turned from essentially subsistent to be cash crops, and some manufactures like garments, shoes and electronics have also been developed. As a result, the number of key exports with the value of over US\$1 billion/each per annum increased from nil in 1986 to nine in 2006 and 2007. The cut of all taxes on exports has become the largest incentives for the expansion of exports. Besides, the establishment of export-processing zones, industrial zones, labour intensive industries and the development of cash crops have also made

great contributions to the development of exports. (This development will be analysed more in detail in Section II on poverty reduction.)

**Table 7: Foreign Trade (US\$ billions)**

Value/Year	1981	1985	1990	1995	2000	2005	2006	2007*
Total	1.7	2.1	4.3	13.6	30.1	69.2	84.7	107.0
Export	0.4	0.6	1.8	5.4	14.5	32.4	39.8	48.4
Import	1.4	1.6	2.5	8.2	15.6	36.8	44.9	59.0
Balance	-1.0	-1.0	-0.7	-2.7	-1.2	-4.3	-5.1	-11.0

\* Preliminary figure.

Source: Statistical Yearbook of Vietnam, General Statistics Office, 2007; Vietnam's 2000 Economic Report, CIEM, March 2001, pp. 39-43; World Economic Problems, August 2000; VER, January and March 2003; Nhan Dan Daily, 23 Oct. 2007 & 16 Dec. 2007; mofa.gov.vn

Foreign direct investment (FDI), and to a lesser extent Official Development Assistance (ODA), has replaced assistance from the former Soviet Union and East European socialist countries and become one of the most important and strategic areas in Vietnam's foreign economic relations. FDI has played an increasing role in Vietnam's economic developments since it has provided the country with increasing capital investment, improved technology, higher quality products, larger markets for exports, increased competitiveness, and increasing numbers of jobs. FDI's share in Vietnam's GDP went up from almost nothing at the end of the 1980s to 5.3 percent in 1990 when it was first calculated, then trebled in 15 years to 15.9 percent in 2005 (*Table 8*). To April 2007, the total number of FDI projects being in operation in Vietnam is 7,087 with the total registered capital of US\$63.55 billions, in which the realized capital is US\$30.69 billions.

**Table 8: Foreign Investments (US\$ millions / % of GDP)**

	1987*	1988	1990	1995	2000	2005	2006	2007**
Committed FDI	Nil	372	839	6,937	2,400	6,839	12,003	20,300
Realized FDI	Nil	60	150	2,556	2,200	3,308	3,956	5,400
FDI % of GDP***	Nil		5.3	6.3	13.3	15.9		
Foreign stock investment								18,000

\* 1987: Year of the FDI Law Proclamation.

\*\* Preliminary figure.

\*\*\* Actual FDI as % of GDP.

Source: Statistical Yearbook of Vietnam, General Statistics Office, 2007; Vietnam's 2000 Economic Report, CIEM, March 2001; World Economic Problems, August 2000; Vietnam's 2000 Economic Report, CIEM, March 2001; VER, June 2003, p.43; Nhan Dan Daily, 23 Oct. 2007; mofa.gov.vn

Since the recovery of ODA for Vietnam in 1993 to 2006, the community of 50 bilateral and multilateral donors has provided Vietnam with the total commitment of US\$36 billions, out of which about 1/3 was disbursed (*Table 9*). This large amount of resources has greatly contributed to the developments of Vietnam in various areas such as the infrastructure, education, poverty alleviation, and the reform process as a whole.

**Table 9: ODA (US\$ billions)**

Value/Year	1993-2006	1993	1995	2000	2005	2006	2007
Commitment	<b>36.0*</b>	1.8	2.3	2.4	3.7	4.4	5.4
Disbursement		0.4	0.7	1.6	2.0**	2.4**	2.0**

\* Of this total, 80% is in loans & 20% grants.

\*\* Estimated.

Source: Statistical Yearbook of Vietnam, General Statistics Office, 2007; Vietnam's 2000 Economic Report, CIEM, March 2001, p.36-37; World Economic Problems, June 2000; Economics and Forecast, No. 3-2000; VER, May 2003, p.32; Nhan Dan Daily, 23 Oct. 2007; mofa.gov.vn

With high development in the three areas of trade, FDI and ODA, Vietnam's external economic relations have actually become a large engine of the high economic growth during the reform years and a big support for the efforts in poverty reduction.

The increasing regional integration is another very important factor in the development of Vietnam during the last one and half a decade as well as for her future long-term development. The Asia-Pacific Region currently makes up of around 70-80% of Vietnam's total trade. Vietnam has joined ASEAN as a full member and played an increasingly important role in almost all areas of activities. ASEAN at present covers about one third of the country's trade and one fifth of its FDI. Vietnam has joined APEC and WTO. These activities reflect the country's efforts to match with the world's common rules and norms and to play a role in the world market.

Another important achievement of Vietnam to be discussed in this paper is the limitation of the negative effects of Asian financial crisis on the Vietnamese economy since 1997. Although the growth rates declined, the negative growth experienced by several economies in the region was avoided in Vietnam. There are several factors behind this achievement.

First were the measures adopted by the State Bank to control the flows of foreign capital. In 1998, for instance, the Governor of the Vietnam State Bank replaced the outdated Regulation of 1994 (Decision No. 204/QD-NH7) by issuing the new regulations (Decision No.18/1998/QD-NHNN7) and an adjusted one in 1999 (Decision No. 297/1999/QD-NHNN5), which controlled and limited the handling of foreign currency by credit organizations. These measures helped in part limit the negative impact of the Asian financial crisis, though they were criticized as being too tough.

Another factor, and in my view the most important one, was *the positive balance of foreign capital supplies and demands* (Table 10). In the year 2000, for instance, according to my estimates, sources of foreign exchange included \$14.3 billion of exports, \$2.2 billion of realized FDI, \$1.6 billion of ODA disbursements, and \$1.7 billion of Vietnamese overseas remittances [*Vietnam News*, 08 June, 2001], \$1.25 billion of remittances from the Vietnamese workers abroad (*Nhan Dan*, 13 Dec. 2000), and \$1.2 billion from tourism, compared to foreign exchange requirements \$15.2 billion imports and about \$1 billion of debt services, making a foreign exchange surplus of \$6.050 billion, a figure which is much larger than the official statistics.<sup>1</sup> In 2001 and 2002, though the surplus dropped, it still remained at \$5.5 and \$4.0 billion, respectively.

<sup>1</sup> According to the figure provided by the Central Institute of Economic Management, Vietnam's surplus in the balance of payment in 2000 was \$250 millions (*VN's 2000 Economic Report*, CIEM, 3-2001, p. 43).

**Table 10: Foreign Capital Supplies and Demands (US\$ billions)\***

	1990	1995	2000	2005	2006	2007
<b>SUPPLIES:</b>						
<i>Export</i>	1.815	5.449	14.300	32.4	39.8	48.4
<i>FDI (a)</i>	0.152	2.743	2.200	3.308	3.956	5.4
<i>Foreign stock investment</i>						18.0
<i>ODA (b)</i>	-	0.73	1.600	2.0b1	2.4b1	2.4
<i>Remittance (c,d)</i>	0.50	1.00	2.95	5.5	8.42**	10***
<i>Tourism</i>	0.5	0.8	1.2	2.3	2.85	3.5
<b>Total</b>	<b>2.967</b>	<b>10.722</b>	<b>22.250</b>	<b>45.508</b>	<b>57.426</b>	<b>77.7</b>
<b>DEMANDS:</b>						
<i>Import</i>	2.474	8.155	15.200	36.8	44.9	59.0
<i>Debt Service (d)</i>	0	0.5	1.0	2.0	2.2	2.2
<b>Total</b>	<b>2.474</b>	<b>8.655</b>	<b>16.200</b>	<b>38.8</b>	<b>47.1</b>	<b>61.2</b>
<b>BALANCE (e)</b>	<b>0.493</b>	<b>2.067</b>	<b>6.050</b>	<b>5.5</b>	<b>10.326</b>	<b>16.5</b>

\* The data advanced in this paper comes from both official and non-official figures, so it may be in some way different from the official data.

\*\* Including US\$6.82 billion remittances sent by Overseas Vietnamese (New York Times - recited by Tuoi Tre 19 Nov. 2007), and US\$1.6 billion sent by Vietnamese workers abroad (Vietnam Economic News, 21 Oct. 2007).

\*\*\* Including US\$5.5 billion remittances sent by Overseas Vietnamese.

a) Realized FDI.

b) Disbursed ODA.

b1: Estimated.

c) Remittances by Overseas Vietnamese and Vietnamese workers abroad (figures for 2000 were \$1.7 and \$1.25 billions respectively) – Estimate.

d) Estimated.

e) Supply over Demand.

Source: Statistical Yearbook of Vietnam, General Statistics Office, 2007, Tables 7,8,9; VER April 2001, p.13; Vietnam News 08 June 2001; Nhan Dan Daily, Dec. 13, 2000, Oct. 23, 2007, Dec. 5, 2007, Jan. 01, 2008; mofa.gov.vn

Although estimates vary, all show a surplus trend on external account, compared to that of all developing countries whose inflow of \$43.4 billion in 1997 turned to be an outflow of \$85 billion in 1998; or East Asia and Pacific countries whose inflow of \$0.8 billion in 1997 was turned to be an outflow of \$68 billion in 1998.<sup>2</sup> This surplus of external account is also different from the trade balance which has always been in deficit since 1976 when Vietnam was reunified after the US left the country.

Up to the recent years of 2006 and 2007, Vietnam continues to enjoy the surplus of external account. This has become a big support not only for the avoidance of financial crisis as in 1997-1998, but also for a healthy financial basis in favour of the high economic growth.

And instead of relying on just economic growth, the Government of Vietnam has followed the pro-poor growth policy by which the benefits of growth has been redistributed not only to promote the rich by encouraging them in their profitable business, but also to support the poor through various economic and social policies,

<sup>2</sup> Indonesia's 1997 inflow of \$1.1 billions turned to an outflow of \$11.8 billions in 1998; Thailand's outflow of \$6.9 billions in 1997 increased to \$15.1 billions in 1998; South Korea's outflow of \$8 billions in 1997 was raised to \$29.9 billions in 1998 (*Finance and Development*, 2000).



including the incremental income tax rates from 10% to 40% and the poverty reduction schemes. This issue will be discussed more in detail in the next section.

### III. The Quick Poverty Reduction Approaches

According to the Donor Report on “Vietnam Development 2004: Poverty”, Vietnam has achieved “remarkable” reduction of poverty, and such “achievements in terms of poverty reduction are one of the greatest success stories in economic development” (p.xi). This conclusion was made based on the fact that since the end of the 1980s, Vietnam has made substantial progress in poverty reduction with a sharp fall in both rural and urban poverty. The general poverty proportion declined from over 70 percent at the end of 1980s to less than 10 percent in 2005 (by the prior-to-2005 criteria). This implies million of people had been lifted out of the poverty list in less than two decades.

One of the latest evidence is the fact that Vietnam had announced on November 11, 2006, at the United Nations General Assembly, the completion of the Millennium Development Goals on poverty alleviation 10 years ahead of the schedule, which aimed to reduce half of the poverty rate worldwide by 2015.

Vietnam reduced its poverty rate from 75% in 1986 to 14.7% in 2007, which means some 310,000 people have been lifted from poverty a year. The survey from 1993 to 2006 showed that in over 13 years, Vietnam has reduced poverty for 42% of the population, equivalent to 35 million people. Along with this, 4 million poor households and 1.7 million people in hardship have been able to get access to the 10 preferential credit programs of the Government, 400,000 new houses for the poor were built and all the temporary houses in 2,000 hamlets and 5 provinces were removed, 88 percent of the poor were provided with free health care, over 1.5 million of new jobs were created every year, including 80,000 jobs created under the form of labour export, substantially contributing to the reduction of unemployment, the creation of jobs for a large number of “returning-home” army men and over a million of new and young comers to the labour market.

The reduction of poverty in Vietnam reflects both the rising household per capita expenditures and the GDP per capita growth, thanks to an increase in real income during the two decades of renovation (1986-2006). The survey for the period from 1993 to 1998, for instance, showed that the average household per capita expenditure rose by 41 percent, indicating a considerable improvement in living standards, a result closely linked to the average annual growth rate of GDP around 7.2 percent per annum, which was much faster than the average annual growth rate of population of 1.6 percent, leading to a 5.6 percent annual growth in per capita income in aggregate. Vietnam’s GDP per capita increased considerably from US\$98 in 1990 to US\$729 in 2006 in current price or more than 7 times in real terms. The question is why has Vietnam done so well to address the problem of poverty in such a short period of time?

There are 4 main reasons behind this progress. First is the identification of poverty alleviation as *one of the top priorities* in every national development strategy, policy and/or plan. Second is the carrying out of poverty alleviation under *an integrated approach*. Third is the expansion of trade through the *increased marketization, commercialisation and diversification* along with the process of renovation (reform) toward the market economy. And fourth is the implementation of poverty alleviation through the process of *multi-stakeholder participation*. These issues may also be seen as the main experiences of Vietnam in addressing poverty.

### ***1. Poverty alleviation: A top priority in every national development strategy, policy and plan***

In Vietnamese, the people often link the following two terms together: “hunger eradication and poverty reduction” (“xóa đói, giảm nghèo”). In policy, these two issues have constituted the primary goals of the socio-economic development strategy. Hence, one of the distinguished features of Vietnam in its policy toward poverty alleviation is the identification of the highly important role of poverty alleviation in all of its national development strategies, policies and plans. Since its renovation started in 1986, beside the regular 5-year plans, Vietnam has set out several national development strategies and policies, including the Comprehensive Socio-Economic Development Strategy (CSEDS) for the period of 1990-2000 and the period 2010-2020, the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) started in 2001, the Industrialisation Strategy set out in the year 2001, and the new Comprehensive Socio-Economic Development Strategy (CSEDS) for the period of 2010-2020 which is being under consideration. In all of these national development strategies, policies and plans, poverty alleviation has always been set as a top priority. The reason is that Vietnam has decided to follow the path of renovation toward a socialist-oriented market economy, which implies a development policy not just aimed at the high economic growth, but also a relatively equitable social development—in other words a *policy of growth with equity*. Implementing this policy, Vietnam used its high economic growth as a tool to support the poor by raising their income, develop their education and health care, and promote agricultural and rural development, since the rural areas are where a large number of the poor live. Thus, in a poor country like Vietnam, poverty alleviation is identified as the first and foremost important step to reach the goal of social equity.

Poverty is, on the one hand, a big problem or a burden to the economy and the society; but on the other, it has a large potential for development as it may become a large consumer market when income is raised, or it may be a large production factor when its cheap labour force is mobilised for development purposes. In Vietnam, poverty alleviation has been set to achieve both of these goals: reducing the burden and to develop the potential. The main objective of poverty alleviation is therefore not simply to support the poor through the handing out of assistance as humanitarian aid or charities, since these are needed only in the urgent and crucial cases, while the more fundamental and long term causes of poverty are different. Various surveys have indicated that in Vietnam the main causes of poverty are as follows:

- a) At the national level, they include the most fundamental matters such as the low level of socio-economic development and the unequal redistribution of income and assets.
- b) At the household level, they include (1) the lack of resources and skills (land, labour, capital, experiences); (2) lack of education; (3) bad social habits like drinking, gambling, drug addict, laziness; (4) large families with many dependents to look after; (5) incapability to apply new production techniques; (6) poor health, disability, old age or ill health; (7) diseases such as malaria, HIV/AIDS and others; (8) the negative effects of policies or policy changes leading to losses (such as high inflation, financial and monetary crisis as a result of the liberalisation policies, the loss of jobs due to privatisation, the “setting prices right” in favour of the “haves” while in disfavour of the “have-nots”); (9) exposure to risks such as the failures and/or risks as a result of the natural calamities that lead to crop failure or natural disasters; and (10) gender inequality.

To solve these problems, the best and most important way of poverty alleviation is therefore *to support the self-help efforts of the poor to remove the causes of their poverty*. That's what Vietnam has experienced.

## ***2. An integrated approach***

In a number of developing countries, poverty alleviation has often been carried out through the targeted programs, which do not link much to other development programs, while in practice these programs closely link to each other and require an integrated approach. In Vietnam *the integrated approach has proved to be the most effective solution to poverty alleviation*.

Under this approach, the programs of poverty reduction in Vietnam are closely linked to other social and economic programs including, among others, the political and economic stabilisation policies, particularly the reduction of inflation from about 800 percent to a single digit in around a decade from the 1980s to the 1990s and currently, the land redistribution reforms (during the 1960s and the 1990s), the job creation, the development of education, the family and population planning, the relatively equal redistribution of income, the program for the progress of women, the health care, the elimination of diseases (HIV/AIDS and others), the environmental protection, the improvement of the governance of poverty reduction, the efforts for ethnic equality, the development of a pro-poor infrastructure, the combination of the agricultural and rural developments, the micro-credit schemes.

The actions taken to address poverty has somewhat changed over time, beginning with the redistribution of agricultural land to rural households at the earlier period of the economic reform aiming to provide the right incentives for increased farm production, then turning to the creation of job by the private sector and the increased integration of the agricultural, the mining and the labour-intensive sectors in the market economy, especially the integration into the regional and the world markets in recent years. The redistribution of agricultural land to rural households in the early 1990s, a process eminently vulnerable to capture by local elites, was remarkably egalitarian, and it has become a guarantee for the basic needs and really in the interest of the poor.

The growth policy of Vietnam shows a pro-poor nature, which has been particularly reflected in the key document of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) that has associated the economic growth with social equity. Based on that guidance, Vietnam has utilised its high economic growth of around 7% to 8% per annum during the reform period and the rising national income therefrom as effective tools to provide the public services with the capacities to reach the poor through targeted transfers, especially through the access to credits, increasing funding for education and health care, reforestation programs, building of commune roads, schools, clinics, clean water sources, and other infrastructure. During the period of 1993-1998, an increase in GDP per capita by one percent was associated with a reduction in poverty by 1.3 percent, whereas during 1998-2002 it was associated with a reduction by 1.2 percent. Both ratios are higher than the average observed across countries.

A remarkable progress in Vietnam is the expansion of the coverage for education over time, even among the poor whose education fee exemptions have covered almost one seventh of their education spending currently. The primary school enrollment rate in Vietnam is as high as of over 95 percent for all major groups, except for the ethnic minorities and the poorest quintile of the population. As for secondary education, the

expansion of enrollment rates over the last decade has been spectacular. In recent years, along with the increasing incomes of the people, investment for education have been more socialised with the call for greater contribution by the people, though the coverage by the State budget has not been reduced.

The health care sector has also been greatly improved, thanks to the benefits acquired from the high economic growth. The provision of the health care cards, which allows the poor to get access to health services at a reduced cost and the improvement of delivery system through the health care funds for the poor, appear to have a positive impact on the poor. The establishment of the Vietnam Bank for Social Policies helps expand the coverage for the poor and leads over time to a better credit culture. As a result of these and other efforts, major diseases have been controlled and the life span in Vietnam has been raised from around 50 during the 1960s to over 70 currently. These results indicate the better performance of Vietnam in the health care sector compared to other developing countries at a similar development level, where the living conditions of the people have become worse and their life span has been shortened.

During the last ten years, another effort has been made, that is, the development of grassroots democracy and participation of local people in the poverty reduction programs. This new scheme started in 1998 when the Vietnamese Government issued the Decree No. 29/1998 on the building and implementation of the regulation of grassroots democracy, which has become the legal framework for the participation of local people in the grassroots development programs, especially the reduction of poverty and eradication of hunger.

One of the typical examples of integrated approach is the link between poverty alleviation and other development programs like the association of poverty alleviation with job creation programs through the implementation of Program for Agricultural Development and Food Production, the Program for Consumer Goods Production, the Program for Export Production, the implementation of the Labour Law and the Enterprise Law, the National Loans Fund for Job Creation, the Handicraft Village Development Program, the Labour Export Program, and others. These programs relate very closely to the labour-intensive sectors and the rural areas where over 70% of the total 86 million of Vietnam's population and nearly 60% of the 45 million people in the labour force live. Hence they greatly contributed to the creation of jobs, reduction of unemployment, structural transformation of labour in accordance with the industrialisation process, and the improvement of the living conditions of the poor.

As a result of these integrated programs, from 2001 to 2006, over 7.5 million of new jobs were created, an average of 1.5 million per annum, and an increase of 25% compared to the previous 5 years of 1996-2000. Besides, over 400,000 workers were sent abroad to work in over 40 countries where they got high earnings and sent back a remittance of US\$1.6 billion in 2006; 6.6 million labourers were trained, with an increase of 15% per annum, and over 70% of these people found jobs after their training.

Among the most significant job creators are the private sector which has been fast developed since the adoption of the Enterprise Law in 2001 and which has created over 90% of new jobs every year; and the 2,000 handicraft villages, 110,000 farms and about 15 million households that have provided around 15 million jobs. As more and more jobs were created, the unemployment rate was reduced from nearly 30% during the 1980s to over 5% in the cities and 20% in rural areas in 2005. The transformation of the

labour structure has also been significant with the share of agricultural labour dropped from over 70% during the 1980s to 56% in 2005, industry to 19% and service to 25% in 2005.

A new and major newcomer to the job creator community—which started since the proclamation of the Foreign Direct Investment Law in 1987—is FDI. During the twenty years of renovation, over 100 among the 500 world largest corporations coming from 82 countries and territories have committed to invest in 9,500 projects in Vietnam with the total committed capital of US\$98 billion, of which about US\$40 billion was realised, creating millions of jobs for the people. In 2007 alone, FDI contributed US\$1.5 billion to the Vietnamese Government's budget, created 1.2 million direct jobs and some few million indirect jobs, greatly contributed to the creation of jobs and raising of income for the poor.

Another example of the association of poverty alleviation with other development programs is the link between poverty alleviation and the Program No. 135 for reforestation. The effect of this link was indicated in the paper presented at the Seminar on “Grassroots Democracy: Experience in Europe and Practice in Vietnam” by Le Anh Vu in Hanoi, July, 23, 2007. In his paper, Le Anh Vu described that after 5 years of the implementation of these programs, from 2000 to 2005, 385 out of 2,362 villages participated in these programs as investors. Though the program is at its initial stage and the number of participated villages is not large yet, it showed the start of a new way of people's participation in development programs where the people not only became masters of programs, but also contributed their own resources for development efforts. From the results achieved during the 2000-2005 period, precious lessons and experiences have been drawn for the further development in the 2006-2010 period and beyond, particularly those experiences relating to transparency, information provision, empowerment, assistance, and the strengthening of the capacity building for the grassroots authorities, the participation of normal people, especially the poor, in every link of the project/program which is of and for their own interests.

### ***3. Increased marketization, commercialisation and diversification***

The renovation toward the market economy was firstly carried out through the internal restructuring of the economy, particularly the transformation from the planning toward the market mechanism. Domestic marketization has been gradually developed throughout both the macro and micro levels, particularly the household. The increased diversification of crops and jobs has become an important source of increased incomes which helped farmers to alleviate their poverty.

As the market economy in Vietnam has gradually been developed under the renovation policy, the households in Vietnam have become much more oriented towards the markets. The proportion of their total output being sold to the markets has been raised from 40 percent in 1993 to 70 percent in 2002, less than a decade. Since the overall production has increased, this change has not worsened, instead it has contributed to the improvement of the food security and nutritional intake of the people.

The increased diversification and commercialization of crops has generally helped the peasants to gain higher incomes, to be uplifted from the list of the poor, to be better off and to reduce their vulnerabilities to market shocks, though rates of farm commercialization and crop diversification may be different from region to region, for instance the Southern regions have obtained the highest rates of farm commercialization and the most diversified crops, while the Central Highland acquired a lower rate of

commercialization and at the same time became too dependant on just one single export crop, namely coffee.

The domestic marketization is closely linked to the development of international trade which, in its turn, is a tool to be used for the narrowing of the earnings gap between the skilled and the unskilled, the specialisation of goods production basing on the available comparative advantages, especially the labour-intensive products. By focusing on the light manufactures, the integration with the world economy helps boosting the demand for unskilled workers, thus raising their wages, particularly the young unskilled women who have benefited a lot from the development of garment and footwear industries.

The spectacular growth performance of the national economy has made it possible for Vietnam to keep a flexible exchange rate and a reasonably low inflation rate of around 5-7% per annum, a moderate budget deficit, a sustainable level of external debt and to obtain a gradual liberalization of international trade, which would help to increase the competition of the country during the process of expanding the integration of the Vietnamese economy in world markets. One of the fundamental indicators for the openness of the Vietnamese economy is that its ratio of foreign trade to GDP has been quickly raised during the two decades of renovation, from around 10% of GDP during the 1980s to nearly 150% in 2005 and 2006. The membership to ASEAN in 1995, the signing of the Bilateral Trade Agreement (BTA) with the USA in 2001, the active participation in the APEC, particularly the holding of the 14<sup>th</sup> APEC Summit in Hanoi in November 2006 with the aim to build the Asia-Pacific to be a dynamic community for sustainable and prosperity, and mostly recently the formal accession to the World Trade Organization (WTO) in November 2006 after 11 years of negotiation—all of these events help boosting the trend of trade expansion of Vietnam.

Along with trade expansion, since the issue of the Foreign Direct Investment Law in 1987, FDI inflows to Vietnam has significantly increased from nil in 1987 to US\$12 billion in 2006, except for the decline in 1997-1998 as a result of the Asian financial crisis. Both trade expansion and FDI inflows have greatly contributed to the creation of jobs, the increase of income, especially in the sectors of cash crops and labour-intensive industries, hence the quick reduction of poverty in Vietnam.

With the development of international trade and foreign investment, Vietnam has been successful in the commercialisation of a number of highly comparative advantage commodities, particularly those relating to the commercialised crops, the labour-intensive industries and the natural-resource-based products. One of the typical examples of trade development is the diversification and commercialisation of key products and key markets, based on which Vietnam has been able to diversify its products from essentially subsistent to cash crops, especially increasing the number of export products of over US\$1 billion / each from nil in 1985 to nine in 2006 and 2007. Actually in 2006, the 9 key exports include crude oil (US\$8.3 billion), garments (\$5.8 billion), shoes (\$3.6 billion), fisheries (\$3.4 billion), wood products (\$1.9 billion), electronic parts & computers (\$1.8 billion), rice (\$1.3 billion), rubber (\$1.3 billion), coffee (\$1.1 billion). In 2007, the above 9 exports continue to keep their key positions in Vietnam's export, in which four exports gained over US\$3 billions each such as crude oil, garments, shoes and fisheries; the other two that reached over US\$2 billion each are wood products and electronic products. These commodities have become the main exports that helped the country to achieve an export growth rate of around 20% per annum, which in turn becomes the engine of economic growth, the largest creator of jobs which create millions of jobs, and the big remover of poverty.

The markets have been diversified from almost a single foreign market—the former Soviet Union which covered over 90% of Vietnam’s total foreign trade prior to the renovation period—to 122 markets worldwide currently.

National marketization and international integration has even helped Vietnam to gain what it did not think of during the period prior to its renovation, that is, the important gains from remittances by Vietnamese workers abroad—overseas Vietnamese and domestic immigrated workers who left their home and now sent back a part of their income to support their families and to invest in the economy. In 2005 alone the overseas Vietnamese who left the country and settled abroad and Vietnamese workers who have been sent to work abroad together have sent back an amount of US\$5.5 billion, a figure nearly equal to both ODA (\$3 billion) and FDI (\$5 billion) combined in the same year. In 2006, remittances continued to raise and reached the peak of US\$8.42 billion.

Beside the remittances sent by overseas Vietnamese and Vietnamese workers abroad, there have been increasing remittances sent home by domestic immigration workers, mostly by the workers who left their countryside home land to work in the cities, towns and industrial zones. This has become a common factor in Vietnam in recent years. As it has been made known by several surveys, in 2002 for instance, 80 percent of the population received at least some income of this sort, largely from domestic sources. Only 6 percent reported remittances from overseas. The average amount of domestic remittances per household in 2002 was VND289,000 (nearly US\$30), with the highest amount of VND479,000 (US\$40) received in the South East, followed by the Red River Delta of VND335,000 (nearly US\$35). Overseas and domestic remittances have contributed mostly directly to the households, hence help raising their income and reducing their poverty.

#### ***4. Multi-stakeholder participation***

In Vietnam there is a familiar term that has often been referred to, that is, the socialisation of certain activities such as the socialisation of education, health care and so on, which means the mobilisation of resources and supports by various stakeholders, including the State, the private sectors, the social and mass organisations, the donors and other actors to join hands in carrying out certain tasks at the national, local or social levels. As poverty alleviation is a large issue of development, it requires the participation and contribution of all sectors and social strata, from the national levels to the grassroot units.

The participation process in Vietnam has been carried out from the top to the grassroot levels. At the national level, for instance, the National Assembly has become a place where representatives from various social strata and sectors, including the nationalities, gender and religions, contribute their ideas and initiatives to the formulation of laws and policies, particularly the initiatives on poverty alleviation policies. The National Assembly is the supreme legislative body and elected every 5 years by secret ballots and through a direct elective system. All citizens aged 18 and older have the right to vote and stand for elections at all levels. Although voting is not compulsory, the voting rate has always stood more than 90%. The fact that 25% of deputies in the National Assembly are women—the highest rate of women’s representation in the National Assembly / the Parliament in Asian countries—reflects the improving and important role of women in the society. The presence of 17% of deputies at the National Assembly as ethnic minorities’ representatives shows another way of participation at the high

Government level. The women and ethnic minorities' representatives are very important stakeholders in the area of poverty alleviation, their voice at the high level of the Government has been heard and introduced into policies and laws for practical implementation.

At the local level, the carrying out of the "grassroot democracy" enables people to directly participate in the decision-making, monitoring and implementing process at their localities. Democratic institutions aim to enable each and every individual to master his or her own destiny as well as that of the country as a whole. The participation of more than 300 mass and people's organizations at the national level and tens of thousands at local level make the participatory process more effective and realistic. About 13 million Buddhists, 5.7 million Catholics, 2.3 million Cao Dai believers, 2 million Hoa Hao followers, 421,000 Protestants, and Muslims also join in social development programs. It is through these channels that the people from all walks of life participate democratically in the socio-economic development process, especially in helping each other to reduce their poverty.

In such context, the role of the State is of extreme importance. Though Vietnam has been in the process of transformation from the planning toward the market economy, the State has not retreated from development as in the case of a number of other developing countries, particularly those in Africa. In Vietnam the State continues to play an *active role*, or "*the leading role*" in formal terms, in development, though it no longer over-intervened as it did during the time under the planning system. This was reflected by the fact that in Vietnam, public spending for the development of social sectors has been maintained almost at the same level during the reform period—roughly about one fourth or 24-25% of the annual Government budget. The delivery of social services to the poor has really been effective, as shown by the fact that Vietnam's social indicators are substantially above those of other developing countries at similar development level.

The public administration reform program has established a framework to improve service delivery to the poor. The one-stop shop model, which was already adopted in 2/3 of the total 64 provinces and cities throughout the whole country, as well as the decentralization process has led to the institutional change and transparency positive to the solving of the problems of the poor, confirmed the commitment of the Government of Vietnam to equality and social inclusion, and to the pro-poor growth strategy.

Budget transfers that have favoured poorer provinces and the recent creation of the provincial health care funds for the poor are important steps in the right direction, though productive investments seem favouring richer provinces and vibrant regions where economic benefits are larger than social interests.

Along with the assistance of the Government, poor households in Vietnam have got access to various sources of credit, both formal and informal, including the Vietnam Bank for Social Policies (VBSP) and the Vietnam Bank for Agriculture and Rural Development (VBARD). In addition, several communes run savings-and-loans schemes, usually with the help from local NGOs. Mass organizations such as the Vietnam Women's Union, the Vietnam Farmer's Union, the Vietnam Youth Union, as well as the Commune People Committee and District Governments, are deeply involved with the micro-credit process at the local level, mainly through the development and certification of credit groups. Some of these local organizations, such as the Women's Union, have carried out savings and credit operations. Currently, there are over 60 international NGOs providing micro-finance activities in Vietnam. In other words, the



formal and informal sources of credit are diversified and numerous. And as a result, about three quarters of households have been provided with pro-poor credits, in one form or another, in which the low-income households represented 61 percent of micro-lending in 2001. Micro-credits have in most cases made possible for the “lack-of-capital” households to help themselves advance to the middle income groups.

In Vietnam, a vast majority of the working-age population actually works, and the labour market participation rates are among the highest in the world. Today, the formal private sector accounted for around 4 million jobs, and a much larger number of jobs have been created by the private informal sector. Though the public sector has not created a large number of jobs like the private sector, and many State-owned enterprises have been slow in their equitization process, they have greatly contributed to the maintenance of jobs through the nearly 4,000 available SOEs. Over the last four years, the proportion of people who mainly work on their own farm dropped from almost two thirds to slightly less than half, giving space for more wage-earning employment which increased from 19 percent four years earlier to over 30 percent currently.

Besides the Vietnamese actors, foreign donors including GOs, NGOs and foreign private firms have also significantly contributed to the poverty alleviation process. Many ODA, NGOs’ and FDI projects have been assigned for or oriented toward poverty alleviation.

#### **IV. The Need for Greater Efforts, New Approaches and Alternatives**

As it was analysed in the previous sections, the model of socio-economic comprehensive development in which economic growth was combined with social equity has greatly helped Vietnam not only to achieve the high rates of economic growth, but also to effectively use the benefits of economic growth to serve social development, particularly to support the poor to move themselves out of the poverty list. The framework of this model was built on the four fundamental pillars, including market motivations to promote high economic growth, the top priority for poverty alleviation showing the determination of a developing nation to combat poverty right at the time when the country is being poor, the integrated approach to concentrate efforts for poverty alleviation, and the multi-stakeholder participation to mobilize resources and initiatives to help the poor to improve their own conditions.

##### ***1. Greater efforts needed***

Though Vietnam has, with the above fundamental efforts, been able to largely solve its big problem of poverty, and in practice poverty reduction in Vietnam has been seen as a successful story, many big old and new problems remain and will likely occur, posing new challenges for the poverty alleviation efforts in the coming future. These problems include:

- *Firstly, the gap between the rich and poor remains a big problem.* The overall figures indicate that from 1996 to 2003 the gap between the rich and the poor quintiles of the population was widened from 7.3 times to 8.7 times in the respective years. Among the five groups or quintiles, there is a steady tendency towards greater inequality, by which the expenditure share of the poorest eighty percent of the population declines slightly over time, while that of the richest quintile increases. This split matches almost exactly the urban-rural divide in Vietnam, as almost eighty percent of the population still lives in rural areas, whereas the richest twenty percent live in urban areas. In 2002, the ratio

between household expenditures per capita in the richest and the poorest quintiles is 6.03. And among the poor, poverty in rural areas and poverty of minority people has been found more serious than that in the cities and of the majority. In 2007, for instance, 26.4% of households in rural areas were poor, compared to 13.7% of poor households in the cities, and 69.3% of minority households were poor, compared to 23.1% of the majority Kinh households. Today 70% of the labour force bases in rural area and 77% of rural households relies on pure cultivation, only 23% has diversified to industries and services. Such an agrarian society is still the main place for low growth with high poverty. The latest figures of the UNDP's Human Development Report (2007-2008) showed that 10% poorest population received only 4.2% of the national income, while the 10% richest received 28.8%, hence the gap of these two groups is 6.9 times. Similarly, the 20% poorest received 9% of the national income, while the 20% richest received 44.3%, the gap is nearly 5 times.

- *Secondly, the restructuring of SOEs trading in agricultural commodities, such as coffee, could lead to a change in the supply contracts linking farmers to the SOEs. Those contracts currently have an insurance component embedded, as they stabilize prices in "bad" times. Getting the domestic prices of commodities closer to the international prices, which would be good for efficiency, could affect the livelihoods of rural households. Moreover, the process of restructuring and divesting SOEs is expected to lead to considerable labour retrenchment, given their considerable over-staffing.*
- *Thirdly, the industrialisation and modernisation process poses a new challenge for food production and food security as it encroaches into the area of food cultivation land and raises the prices of agricultural production inputs, hence reducing food outputs and increasing food prices both of which negatively affect the poor first and foremost. The current world food shortage, especially the serious food shortage in food-producing developing countries, is a new challenge that Vietnam is in no way an exception.*
- *Fourthly, the gradual liberalization of foreign trade has led and will continue to lead to job cuts, hence negatively affecting the livelihood of suppliers in so-far protected sectors, including workers in cottage industries.*
- *Fifthly, the negative effects of globalization, particularly the change in world prices, the reduction of subsidies, the investment of foreign firms in formerly restricted areas, the unfair anti-dumping actions, and the agricultural subsidies by the US, Japan, EU and other developed countries may lead to the loss of considerable number of jobs by the workers in several industries such as garments, shoe-making, service, fishery, coffee and others.*
- *Sixthly, the new criteria of poverty reduction is another challenge for Vietnam. Based on the low international standard of one-dollar-a-day and below, Vietnam's poverty reduction is spectacular with the poverty rate reduced from 58% in 1993 to 14.7% in 2007; but by the new and higher standard of two-dollars-a-day, the poverty rate is still as high as 18% in 2007. The truth is that, though a large proportion of the Vietnamese population is no longer desperately poor living below the minimum needs of food, clothing and dwellers, they are still relatively poor, lacking certain essentials in their basic needs which includes not only food, clothing and dwellers, but also education and primary health care.*
- *Seventhly, natural calamities, poor health conditions, social and economic shocks, and/or other uncertainties may turn the out-of-poor back to be poor*

*again any time* when development conditions are no longer in their favour. This situation of “poverty recovery” already occurred in Vietnam during several typhoon and dry seasons when production was destroyed, and at the economic and social crises, especially at the high inflation time when high prices deeply cut into the tiny budgets of the poor.

The above problems indicate that even though Vietnam has made remarkable progress in the process of its poverty reduction, it still needs a lot more efforts to combat, to reduce and to eliminate poverty for the fulfilment of its committed goals as to build a strong nation with rich people, a just, civilised and democratised society.

## ***2. New approaches and alternatives***

### ***2.1. Setting up the PPM Links***

Though the old efforts have proved to be very effective, it is necessary to find out new approach(es) for poverty alleviation which aim to obtain not only rapid poverty reduction, but also a sustainable development where the remove of poverty would last long and poverty would not be recovered. One of such *new findings* is the new set of policies which would help Vietnam as well as other developing countries to further develop their agriculture in association with the reduction of their poverty through the integration of “*the PPM Links*” to connect:

- Production;
- Processing; and
- Marketing.

These links can be made through the setting up of agro-business and/or agro-industro-service complexes with an aim to establish closer connection between production, processing and marketing. This is the best way to reduce the intermediate transaction costs in time and money, raise the value chain in agriculture, bring the products of the producers closer to the markets, and bring the peasants to a better position to gain higher income, hence lessening their poverty. This may be considered as a new solution to agricultural growth and poverty alleviation in developing countries, for it would not only raise agricultural productivity and the value of agricultural products, but also create more jobs and income for the peasants who make up the major part of the population in developing countries.

### ***2.2. Double click for high economic growth and quick poverty reduction***

The final point to be discussed in this paper is the looking for a new, effective and realistic solution, or an alternative to poverty reduction. The reason is because, though there have been so far a few sound theories and policies on development which assume the ability to reduce or “alleviate” poverty—like the neo-liberal “pyramid” or the “trickle down” theory, the structural adjustment policies, stabilization programmes and the Washington Consensus—in practice most of the countries that adopted these theories could not reduce their poverty as they wished or projected, hence leading to a lot of criticism on these theories and policies.

One of those critical authors is Dr. Michela Cerimele who presented her paper on “The Origins of Democratic Governance and Participation within Mainstream Development Discourse” at the Seminar on “Grassroots Democracy: Experience in Europe and Practice in Vietnam” held in Hanoi, July, 23, 2007. In her presentation she wrote – and

it is worth quoting at length – the “mainstream development discourse... of theories and practices of development deeply articulated with the so called *neo-liberal project*, elaborated and diffused by World Bank and IMF... since the beginning of the 1980s... resulted from the “structural crisis” of the late 1960s and 1970s... The *Washington Consensus*: a set of strongly disciplinary measures (structural adjustment and stabilization programmes)... had entered in... failure... in terms of economic growth... [and] poverty alleviation... [It had therefore to] shift to post-Washington consensus in... notions of (good, democratic) governance and participation... Since the beginning of the Nineties IFIs and Western governments have linked the disbursement of aid to good governance reforms, gaining more influence in the process of political and institution building of developing countries... In summary, such... democratic governance and participation are devoid of political and social meaning...”

The author of this paper agrees with most of the critical points made by Michela Cerimele on the mainstream development theories and practices, except one thing: besides criticism there have been no recommendations or proposals for a new approach or an alternative to replace the old and ineffective theories and models. It is therefore very necessary to look for a new solution to solve the closely related problems of low growth and high poverty. And to me, in this case, the Vietnamese model seems to be the suitable, effective and realistic approach, for it has achieved rapid poverty reduction through the inclusion of poverty reduction as a top priority in the larger regime of development which links economic growth with social equity, effectively using the benefits of high economic growth for the cause of rapid poverty reduction. This model is obviously a practical initiative, which may be considered, at least, as an additional component, if not an alternative, to the Mainstream Development Discourse, particularly the Washington Consensus and/or the “trickle down” theory. In this model, under the guideline of “the State and the people working together,” one may see the contribution of all the stakeholders for the cause of poverty reduction, especially the poor themselves who have actively participated in the process of grassroot democracy. The Vietnamese model has thus proved that a country like Vietnam that adopted it would be able to make a double gain from one policy which aligns the high economic growth with rapid poverty reduction. In other words, a “double click” for both economic growth and social equity could be the drive for the achievement of both goals at one time for a developing country, that is, the high economic growth and quick poverty reduction.

From the above analysis, we may find that the main reasons which have helped Vietnam to quickly reduce its poverty along with high economic growth include: (1) The inclusion of poverty reduction as a top priority in every national strategy, policy and plan; (2) The association of poverty reduction with other social and economic programs; (3) The increasing process of marketization, commercialization and diversification to create more opportunities not just for the rich, but also for the poor; and (4) The promotion of the multi-stakeholder participation in poverty reduction, especially the participation of the poor themselves.

This conclusion proves that the philosophy adopted by Vietnam was the right one when its leaders confirmed “not necessarily waiting until the economy is to be highly developed to solve the social problems, instead we can solve them at every step and through the whole process of development, linking economic growth with social progress and justice” (Vietnamese Communist Party’s Programme for National Construction); or “realizing social progress and justice at every step and in every policy of development. Linking economic growth with cultural, health and education

development... solving well the social problems and realizing well the social policies...” (10<sup>th</sup> Party Congress’ Resolution, Nhan Dan Daily Weekend, 29 July, 2007).

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