

POLICY BRIEF

Viet Nam National Human Development Report 2015: Growth that works for all



Empowered lives.
Resilient nations.

The policy brief draws on the Viet Nam National Human Development Report (NHDR) 2015.

The NHDR 2015 is the product of a collaborative research effort between the Viet Nam Academy of Social Sciences (VASS) and the United Nations Development Programme (UNDP). The NHDR seeks, through the lens of human development, to identify a new growth model which ensures that all Vietnamese citizens realize their potentials and are able to enjoy fulfilled and enriched lives.

The Viet Nam Academy of Social Sciences (VASS) and the United Nations Development Programme (UNDP)

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PROMOTING INCLUSIVE GROWTH FOR HUMAN DEVELOPMENT IN VIET NAM

1. Human development in Viet Nam: Performance has been impressive but was uneven and has slowed down

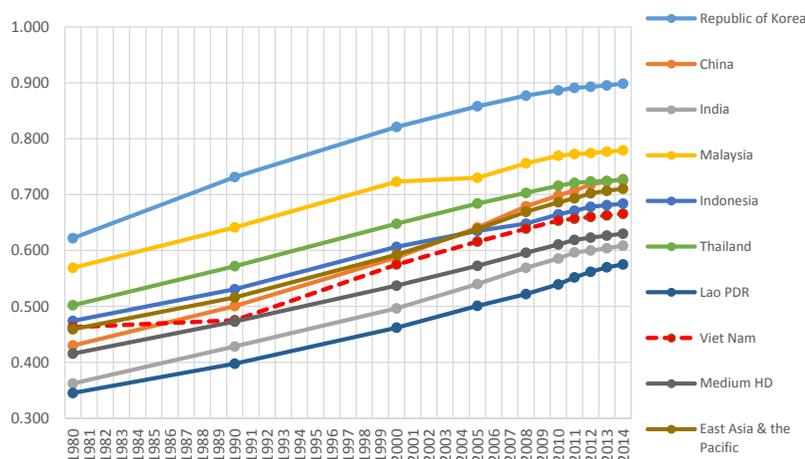
At the national level, Viet Nam performed impressively in terms of human development over the last 35 years, but its progress varied between periods. During the initial years after the Doi Moi (renovation) reforms in the late 1980s, its Human Development Index (HDI) fell back¹, opening up a gap between Viet Nam and its peers in the region. HDI improved rapidly in the

¹ HDI measures aggregate achievement in terms of income, education and health.

late 1990s and early 2000s but this gap was never fully closed (Figure 1). It is particularly noteworthy that: (i) Viet Nam's under-performance in human development has been more pronounced than its economic development in recent years; (ii) inequality has had less of an impact on human development in Viet Nam than in the selected comparator countries²; and (iii) Viet Nam has enjoyed relatively good performance in gender equality in a number of domains.

² Countries selected for comparison include: Viet Nam, India, Republic of Korea, Indonesia, Laos, Malaysia, Japan, the Philippines, Singapore and China.

Figure 1. Viet Nam's HDI compared to selected comparator countries



After taking account of different development starting points, comparisons of human development progress between countries show that Viet Nam was a star performer in the 1990-2000 period, but progressively slipped down the league table during the 2000-2008 period, and more so after 2008.

Within Viet Nam, although there has been a long-standing convergence in human development levels between various regions of the country, this trend reversed after the global financial crisis in 2008 and has not been re-established. Provincial-level HDI data shows a complex pattern of change: (i)

the overall trend is positive, with all provinces making progress, but some provinces do better than others³; and (ii) those that did best experienced balanced development - economic vibrancy was important to human development, but equally, economic development went

³ It is possible to identify "rising stars" like Hai Giang, Tien Giang, Binh Phuoc, Thai Nguyen and Phu Yen and "static stones" like Ha Nam, Nghe An, Phu Tho and Ha Tinh which slipped down the rating table. Top performers remained as expected but Ha Noi had fallen to the 4th place below Da Nang (plus Ho Chi Minh and Ba Ria - Vung Tay cities) and, with rapid increases in HDI, a number of provinces with low HDI values like Ha Giang, Lai Chau, Kon Tum and Gia Lai were endeavouring to catch up with middle-level provinces. Nonetheless, development gaps between Ho Chi Minh, Da Nang cities (with HDI values similar to Poland or Croatia) and Ha Giang, Lai Chau (with HDI values lowest in Viet Nam and similar to Guatemala or Ghana) remained considerable.

hand in hand with improved social outcomes⁴.

2. Inclusive growth: Positive transformation and remarkable performance in education, health and social protection

Inclusive growth – rapid, sustainable growth that leaves no one behind, can be measured by an aggregate indicator integrating the economic growth rate and improvements in distributional equity. An inclusive growth path is important in achieving progress in human development in those countries with low development levels. There are three policy areas that mark out an inclusive growth strategy: (i) delivering productive employment opportunities; (ii) provision of quality social services (particularly education and health care); and (iii) securing access to effective social protection.

During the 30 years since the launch of the Doi Moi reforms, Viet Nam achieved a relatively high average growth rate⁵ thanks to the forces generated by the economic transition from a centrally planned to a “socialist-oriented” market economy⁶. Viet Nam recorded important achievements in each of the three policy pillars associated with inclusive growth.

In terms of *productive employment*, the share of agricultural employment decreased rapidly (from nearly 80 per cent during the initial years of Doi Moi down to just 44.3 per cent in 2015), with the labour force moving to industrial and service sectors. Within the agricultural sector, positive structural change, with increased shares for more productive and higher-income sub-sectors were recorded. The share of formal employment also increased, from 28.2 per cent in 2007 to 33.7 per cent in 2014. As a result, Viet Nam successfully reduced its relative gap in labour productivity vis-a-vis other countries in the region, although the absolute gap remained significant.

The above achievements helped bring about *positive social change manifested in reduced population shares of the poor and near-poor and the rapid expansion of the middle class in the country*⁷. Specifically, the population shares of the poor and near-

poor groups as per the international poverty line(s) went down respectively to 12.4 per cent and 26.1 per cent in 2012, from 26.7 per cent and 38.8 per cent in 2004. In turn, the population share of the lower middle class (based on criteria for developing countries) rose quickly from 28.4 per cent in 2004 to 47.8 per cent in 2012. This population group became the largest group in 2012, from its position as the third largest group in 2004. The upper middle and the high income groups also expanded considerably, from 2.7 per cent and 3.4 per cent in 2004 respectively to 6.7 per cent and 7 per cent in 2012.

In the *education sector*, noteworthy achievements included high enrolment and completion rates in primary education, and gender parity in primary, lower secondary and upper secondary education. In terms of health, Viet Nam compared very favourably with most countries of similar per capita income levels. Life expectancy, a key component of HDI, increased from 67.6 years in 1980 to 75.9 years in 2013. Equally, performance on the health targets within Millennium Development Goals (MDGs) were generally positive, particularly the reduction in child and maternal mortality rates, tuberculosis control and malaria prevention.

In the field of *social protection*, there were also significant achievements. Viet Nam Social Insurance (VSS) had 11.4 million contributory members and provided pensions to 2.2 million retirees. Nearly 1.6 million people of 80 years of age and older were provided with monthly social support from the State budget. By 2015, nearly 75 per cent of Vietnamese were beneficiaries of health insurance. Nearly 800,000 disabled people with no working capacity received monthly social assistance. Hundreds of thousands of other vulnerable people – elderly, orphaned children and children in difficult circumstances and persons living with HIV – were provided with cash assistance and social care. Poor households and ethnic minority households and their children were provided with cash assistance, exempted from school fees, given assistance to promote productive activities and received vocational training.

3. Accelerating inclusive growth in order to promote human development during the new stage of development: Opportunities and challenges

After three decades of Doi Moi renovation and international integration, Viet Nam has embarked on a new stage of its development. With GDP a per capita of USD 2,054 in 2014, Viet Nam has entered a transition from development that relies primarily on the use of resources and cheap labour to development that is driven by the effective use and allocation of resources as well as by the increased application of technology and innovation⁸. Viet Nam is facing intertwined opportunities and challenges which will

⁴ A multi-dimensional approach to poverty has confirmed that not only low income but other non-income dimensions of deprivation have important bearings on the life of people.

⁵ Based on data from the World Bank's World Development Indicators, Viet Nam's average annual growth rate for the 1986-2014 period was 6.51 per cent, significantly higher than that of least developing countries (4.49 per cent), low income countries (3.76 per cent), lower middle-income countries (4.75 per cent) and the whole world (2.83 per cent) for the same period.

⁶ Liberalization in agriculture and non-agricultural sectors, price liberalization and the opening-up for international integration, favourable geographical factors, together with considerable investments on “hard” infrastructure (roads, harbours, communications...) and “soft” infrastructure (education, health...) generated the most important driving forces for Viet Nam to reach a high economic growth rate generally and particularly a high growth rate in labor-intensive agricultural, industrial and service sectors. Thanks to meaningfully expanded employment opportunities, the vast majority of Vietnamese workers were able to participate in, contribute to and benefit from the growth process and, in the process, Viet Nam was able to keep inequalities at a degree corresponding to its development level. According to the 2015 report in inclusive growth of the World Economic Forum, Viet Nam was ranked 17th amongst the 34 countries of the middle income group.

⁷ Dựa theo phân loại được sử dụng trong nhiều nghiên cứu quốc tế, dân cư được chia thành 5 nhóm theo mức thu nhập bình quân 1 người/1 ngày: nghèo, dưới 2 USD; cận nghèo 2-4 USD; trung lưu lớp dưới 4-10 USD; trung lưu lớp trên 10-13 USD; và thu nhập cao, trên 13 USD (tất cả đều tính theo sức mua tương đương PPP năm 2005).

⁸ Based on growth theories, The “Report on Global Competitiveness” of the World Economic Forum, countries are broken down into three (3) groups according to their increased development levels, measured by the average per capita incomes. The main driving force for these development stages are (1) factor-driven, (2) efficiency-driven) and (3) innovation-driven). These correspond to >17.000 USD for Stage 3 whereas the other two groups in transition from Stage 1 to Stage 2 with 2.000 - 2.999 USD and from Stage 2 to Stage 3 with 9.000 - 17.000 USD.

have a significant bearing on inclusive growth during this transitional period.

Opportunities

- Major achievements in the economic, education, health and social protection fields, mentioned above, have created foundations for bringing inclusive growth to a new, higher level.
- “Rebalancing towards Asia” strategies pursued by the governments of many developed countries, and “China plus one” strategies applied by various multinational corporations, involving the relocation of production from China to cheaper localities in the region, offer Viet Nam new opportunities, through greater participation in global value chains. Such opportunities will be strengthened by the country’s increased international integration through participation in the Trans-Pacific Partnership (TPP) Agreement and the new generation of Free Trade Agreements (FTAs).

Challenges

- **Slowdown of economic growth:** During the last 10 years, Viet Nam’s economic growth has slowed down⁹, partly due to the adverse impacts of the global financial crisis, but to a greater extent due to those factors that had previously driven growth, running out of steam. Bringing the economy back to a rapid and sustainable growth trajectory will face many challenges. In the short-term to medium-term, the country will have to address the consequences left over by a bubble economy in the previous decade. In the medium-term to long-term, it will need considerable time to generate new growth dynamics that rely on the effective use and allocation of resources and the application of technology and innovation.
- **Multi-speed economy:** 2015 saw renewed economic growth with a rate of 6.68 per cent per annum, which has been positively regarded by the international community. Nonetheless, this achievement was dominated by an FDI sector that performed far better than the domestic-owned sector. Weak linkages between these two sectors hindered Viet Nam’s ability to seize opportunities to upgrade the technological capabilities of domestic enterprises. Yet this is vital if the country to avoid the “*assembly trap*” (a lower level of the “middle income trap”). Within the domestic economy, linkages between the formal and the informal sectors (including agricultural households), the latter had lagged behind in the growth process – were also very limited, hence further aggravating the problems of a multi-speed economy. The problems also include disparities in growth and development (measured by GDP and HDI) between provinces located in core and peripheral areas, which have showed no sign of narrowing. There is also a danger that disparities between

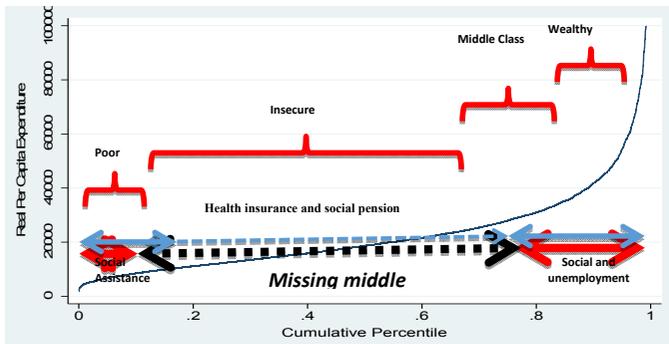
rural areas and urban areas, between skilled labour and unskilled labour will increase faster as Viet Nam increasingly integrates itself into the global economy, which is increasingly being driven by technology and skills, and is also closely linked to the urbanization process. Consequently, the danger that inequalities will increase and a portion of society will not be able to catch up and will be left behind will become real and pressing.

- **Without reform, the education and health systems will struggle to respond to the requirements of the new stage of development:** In contrast to the achievements in equal access to and quality of primary and lower secondary education that are internationally recognized, the quality of pre-primary, higher education and vocational training in Viet Nam is far from adequate. These subsectors are also vital for meeting new challenges associated with Viet Nam’s new development context. Moreover, within education there is already evidence of social stratification and exclusion in pre-primary and post-secondary education, due to the fact the access to these subsectors is increasingly linked to people’s capacity to pay. Shortcomings in the education and health administration systems – services which have “public goods” features – specifically, the expansion of the Government’s socialization policies without adequate standards and regulation have also had negative impacts on efficiency. There is evidence that development outcomes are not proportionate to the large investments made by the State and families¹⁰. This has led to a situation where some users have had to pay unnecessary costs imposed by monopolistic service providers.
- **The social protection system has led to the emergence of a “missing middle”:** Viet Nam has developed a social protection system that is based on “rights” and “life cycle” coverage entitlements, but this system is bifurcated between relatively generous social insurance for those working in the formal sector and very limited social assistance for the poorest. While Viet Nam’s overall public spending for social protection accounts for 2.8 per cent of GDP, the portion for social assistance makes up merely 0.4 per cent of GDP (2013). This reality, together with the limited coverage of social assistance, has led to the emergence of a “missing middle” – the near poor and lower middle income people often working in the informal sector – who are neither eligible for social assistance nor able to access social insurance. (Figure 2). As they are not covered by the current social protection system, these groups are highly vulnerable to external shocks and have limited capacity to make investments for the future. Social transfer values are also too low to make much of a difference to those who are eligible and have thus led to a number of negative outcomes, including widespread stunting in children from poor and low-income families.

⁹ Based on data from the World Bank’s World Development Indicators, Viet Nam’s average annual growth rate for 2006-2014 was 6.05 per cent which no longer was much higher than that of low income countries (with 6.08 per cent on the average) and lower middle income countries (with 6.08 per cent on the average)

¹⁰ Viet Nam has spent as much as 6.6 per cent of GDP for health and 7.8 per cent of GDP for education, higher shares than those of middle income and other countries in the region.

Figure 2: The Social Protection system has led to the emergence of a missing middle



- **Policy and fiscal space has become considerably narrowed:** Viet Nam’s increased integration into the global economy has narrowed its policy space due to the binding commitments given in international agreements. Recently, public debts have increased rapidly, thus limiting fiscal space and impacting on state investments in hard and soft infrastructures, including investment in Social Protection. This limits the State’s ability to help the poor and other vulnerable people (in the middle class) to avoid being left behind.

4. Policy recommendations

In order to maximize inclusive growth in the new development context, it will be necessary to introduce new, comprehensive institutional and policy reforms to: (i) expand productive employment; (ii) improve the education and health care systems; and (iii) renovate the social protection system.

Expanding productive employment

(i) **Control inflation and maintain macroeconomic stability in an appropriate manner** by implementing prudent fiscal and monetary policies and a flexible exchange policy, while not compromising the inclusiveness of growth by making fiscal policy more progressive (including the gradual phase-out of fossil fuel subsidies, complemented by appropriate measures to protect the poor; making effective use of recurrent spending; and introducing a property tax, among other measures);

(ii) **Increase economic efficiency** by accelerating domestic reforms in tandem with efforts to achieve greater regional and international integration;

- Effectively implement public administration reforms and aggressively combat corruption;
- Effectively implement and accelerate structural reforms in the fields of public investment, finance and banking, State-owned enterprises and agriculture;
- Promote private sector development;
- Improve the efficiency and flexibility of the labour market;

(iii) **Enhance connectivity and technological readiness as well as nurturing innovation by:**

- Accelerating urbanization in order to generate economies of scale and agglomeration;

- Promoting industrial and service clustering, agricultural product chains and increasing the size of enterprises;
- Giving priority to public investments in backbone infrastructure, thus supporting connectivity and technological readiness;
- Reshaping the capital market to develop long-term financing and venture capital that supports R & D and innovation;
- Implementing appropriate industrial policies in order to promote closer linkages between the domestic and FDI sectors, especially measures to support technology-linked start-ups and high performing existing enterprises engaging in R&D, particularly medium technologies that are linked to global value chains.

Improve the education and health care systems to meet the needs of the new development context. Specifically:

(i) Build on achievements at the primary and lower secondary education levels; put greater emphasis on improving the quality and accessibility of pre-primary and higher education and vocational training in order to improve the capacity of people in seizing employment opportunities that require higher skills and expertise;

(ii) Undertake a comprehensive evaluation of resourcing and management reforms prior to any further expansion of the socialization;

(iii) Re-think the regulation and oversight of these key public services in order to ensure equity and efficiency before further steps are taken.

Renovate the Social Protection system to secure greater levels of coverage and efficiency, thereby helping people and the economy to better cope with external shocks, improve their capacities to make investments for the future and seize productive employment opportunities. Specifically:

(i) Implement incentive measures aimed at securing universal health insurance in parallel with improving the management, transparency, equity and efficiency of the Health Insurance Fund;

(ii) Make continued efforts to ensure self-financing social insurance by balancing the levels of contributions and entitlements; taking population ageing fully in to account and consider raising the retirement age; and take account of the pace of economic formalization alongside and financial implications when planning the expansion of social insurance;

(iii) Expand the social assistance based on Life Cycle entitlements (birth and childhood, working age, disability and old age) by gradually expanding the coverage and entitlements of policies for the elderly, people with disabilities, and children and expectant mothers. These measures will require additional resources and a reallocation of funds within the overall total (through the integration of overlapping programmes and the elimination of ineffective ones). It should also be stressed that better Social Protection system will be an effective public investment with a high economic and social rate of return.