The 1986 Economic Liberalisation In Vietnam And Its Impact On Income Inequality

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Intergovernmental organisations such as the World Bank and the International Monetary Fund have hailed economic liberalisation as reforms of success that bridge gaps of productivity and poverty within society. These organisations have referred to the success of India, China and Vietnam as case studies of effective liberalisation reforms. However, the data indicates that growing income inequality is a key economic issue in these countries. Noting that, this article attempts to understand whether the economic liberalisation reforms taken by the Vietnamese government made an impact on the income inequality of Vietnam after the liberalisation reforms took place.

The Economy of Pre-Liberalisation

In 1976, Vietnam was in the process of transitioning from the destruction of the American-Vietnam war. The objective of the new Vietnamese government was to unify the country politically, economically and to build a socialist state modelled after the Soviet Union (Kimura,1986). Therefore, the Vietnamese government introduced the second 5-year plan (1976-1981), which was to be implemented in all of Vietnam as compared to the first 5-year plan, which was implemented only in North Vietnam. The plan emphasised the need for industry and agriculture to support each other.

The government aimed to invest heavily in both sectors and ensure the excesses produced by each sector would benefit the other. The aims of the Vietnamese government were in the double digits in regards to growth of national income (13-14%), industrial growth (16-18%) and agriculture (8-10%). However, data from the Vietnamese government and the UN indicates that the targets were not met (A,2021).

Year	National Income (Million Dong)	Annual Growth Rate
1975	18,300	-
1976	19,901	8.7%
1977	20,305	2.03%
1978	20,742	2.15%
1979	20,368	-1.8%
1980	19,564	-4.1%
1981	20,580	5.19%

Table 1: National Income in Vietnam | Source: (Kimura,1986)

Year	Agriculture Index	Annual Growth Rate	Industrial Index	Annual Growth Rate
1975	100	-	100	-
1976	110	10%	113	13%
1977	105	-4.54%	124	9.7%
1978	105	0	133	7.25%
1979	112	6.66%	125	-6.01%
1980	118.7	5.98%	113	-5.83%
1981	123.4	3.95%	130	15.04%

Table 2: Development Index and Annual Growth Rate in Vietnam | Source: (Kimura,1986)

Furthermore, Vietnam was an import-dependent country as it did not have the means for its basic self-sustenance. Hence, to build that agricultural and industrial base which was lacking, the government borrowed a lot of money from countries across the globe and was heavily dependent on foreign aid, especially from the Soviet Union. As the government could not meet its highly ambitious targets and continued to increase imports and foreign aid, its economy started to suffer from a crisis. As a result of the crisis, inflation in Vietnam rose by more than 750% in 1986 (Son, & Van Thanh, 1998).

The key measure of the Vietnamese government from the third 5-year plan (1981-1985) was to decentralise planning and introduce private players in agriculture and small-scale industries to boost exports.

With the aim still to introduce state control of agriculture and industry, the government worked to expand their influence where it could and attempted to capitalise on private players who were able to produce an excess in both sectors. The light industry sector, which had privatisation, was able to outproduce the heavy industry sector that was controlled by the state.

The government also introduced incentives to private farmers, such as selling excess produce in markets for profits. Thus despite collectivision efforts taking place, private farmers reaped benefits from the limited freedom the government was providing. Ultimately, the unsustainable economic practices of the Vietnamese government, such as the high borrowing, high government expectations, and a lack of adequate capital to expand agriculture and industry, led to the collapse of the Soviet economic model in Vietnam (Son, & Van Thanh, 1998).

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The Liberal reforms of the Vietnamese Economy

The unsustainable economic practices pushed the Vietnamese government to implement structural changes in the economy. The Vietnamese government introduced the “Doi Moi” reforms in 1986. The primary policy introduced by the government was to liberalise the economy and facilitate foreign investment. Furthermore, the government also introduced measures to facilitate increased exports from the country. To meet this objective, the government decentralised licence registration and gave local governments more power to issue licences.

The government also used market mechanisms to devalue their currency from 18 Vietnamese Dong for 1 USD to nearly 4,300 Vietnamese Dong to 1 USD. The Government then introduced reforms in state enterprises by adding them to taxable industries along with the private sector and stopped subsidising public sector enterprises. This meant that state enterprises now had to procure funds through revenue and raise capital by accessing credit from banks. These reforms had a major impact on the Vietnamese economy as the GDP of Vietnam grew 21.2% from 1986 to 1991, and an annual average increase of 3.9% post reforms. Agricultural and industrial output also saw increases, specifically in crude oil, steel, iron and rice.

Vietnam was a rice importer till the reforms, and the agricultural reforms made Vietnam the third highest rice exporter by 1990. Exports also saw a 28% increase, and the ratio of exports to imports moved from 1:4 in 1976 to 1:1 in 1990.

The second 5-year plan post reforms aimed at expanding these reforms and ensuring a complete utilisation of the socialist market economy. Over the period, the Vietnamese government actively worked to establish deeper economic ties with the major geopolitical and economic players like the US and the European Union (EU). Vietnam joined ASEAN and set up a cooperation agreement with the EU. As a result of the Vietnamese government initiatives, the GDP grew to 48.3% over the 5-year plan with an 8.2% annual average. Industrial output increased to 13.5% per year during this time, with particular note to heavy industries such as cement, steel and crude oil, among others.

Furthermore, by this time, the structural changes in the economy were more visible as the share of output in the primary sector decreased from 40.5% in 1991 to 27.5% in 1995 while industry increased from 23.5% to 30.1% and the service sector increased from 35.7% to 42.4%.

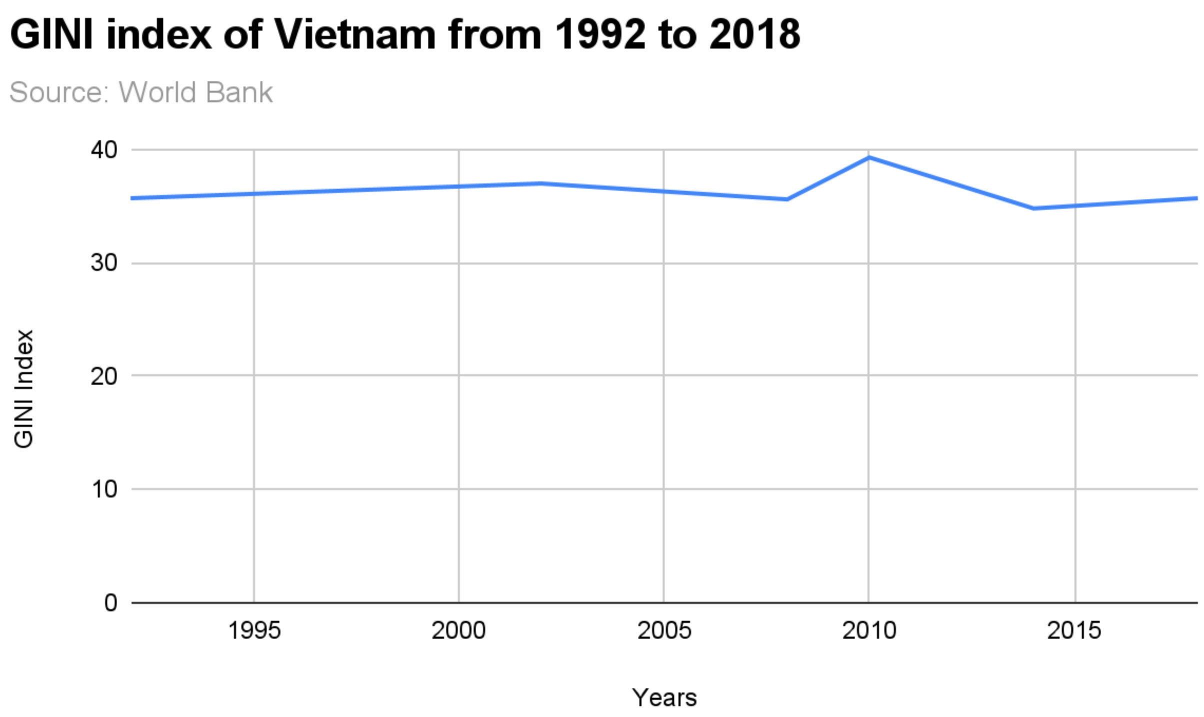
Income inequality in Vietnam post the Doi Moi reforms

Vietnam has significantly developed from a low-income debt-ridden state to a thriving middle-income economy due to the liberalisation of the economy. The "Doi Moi" reforms which liberalised the Vietnamese economy, lifted Vietnam from a stagnant economy to a country with flourishing agricultural and industrial production. Hanoi's policies also lifted the country out of decline and helped it develop into a thriving developing country. Liberalisation reforms saw poverty reduced from 58% in 1993 to 15% in 2008 using the GSO-WB (Government Statistical Office-World Bank) poverty line Headcount ratio data.

However, while poverty has reduced, disparities in wealth and income have continued to rise, arguably as a result of the changing structure of the Vietnamese economy. New industries and employment opportunities were a result of economic liberalisation; however, those opportunities could be accessed by a small composition of the population for reasons such as access to information, educational qualifications and even access to connections. According to a report from the World Bank, the share of income for the bottom 10% of the population reduced by 5% from 2004-2010, whereas the income of the top 10% increased by 2%. The chart below shows the GINI index of Vietnam from 1992 to 2018.

The data taken from the World Bank shows us that the structural changes in the Vietnamese economy led to a rise in income inequality. At its height, the GINI index shot up to 39.3 in 2010.

Economists have argued that the phenomenon of income inequality seen in Vietnam is a more favourable situation. Evaluating the data, it can be argued that Vietnam's income inequality situation is more favourable, that is because countries such as China and India have seen steeper growths in income inequality. China's GINI index, as recorded by the World Bank, rose from 32.2 in 1990 to 43.7 in 2010, while India's GINI index rose from 31.7 in 1993 to 35.7 in 2011. Income inequality in Vietnam can be attributed to various reasons, as noted by economists.



It has been noted that economic liberalisation has left out the ethnic minority and rural communities as beneficiary stakeholders. As shown earlier, poverty in Vietnam reduced significantly; however, that can be majorly attributed to the reduction of poverty in Urban areas as the poverty rate in rural areas was at 27% as compared to 6% in urban areas. Furthermore, 10.7% of Vietnam's rural poor faced extreme poverty, whereas only 1.5% of the urban poor faced extreme poverty. Minority communities in Vietnam have also faced the sharp edge of liberalisation as gaps in access to education, agricultural markets and government support have increased the composition of minorities in Vietnam's poor from 20% of all households in 1993 to 66.3% in 2010. Furthermore, 37.4% of ethnic minorities live in extreme poverty as compared to 2.9% of the majority Kinh ethnic group.

Policy Analysis

As shown above, Vietnam saw a significant rise in its GDP and had an average growth of 8.2% from 1986-1991. Vietnam also saw its industrial output and was able to transition from an input-oriented economy for agricultural products to one of the world's most prominent exporters of rice. However, the statistics above, the data indicate that income inequality leads to a cycle that then roots socioeconomic inequality amongst a population. Widening gaps in income would eventually lead to wider gaps in access to quality education, leading to a select composition of the population that can access high-paying jobs. It can also lead to growing disparities in access to health and social services leading to poor socioeconomic outcomes for the excluded populations.

Looking at the available information, we can point to three major population groups that are the casualty of economic liberalisation in Vietnam. Rural communities, Minority communities and communities that reside in geographically areas with limited ability to grow economically. Therefore, the government of Vietnam must build a system capable of delivering social and economic welfare to these communities. The social protection system introduced by the Vietnamese government aimed to provide protection through insurance and assistance. However, data from the world bank shows that only 9.5 % of total households were covered by a social insurance programme. Coverage for poor, rural and minority communities was even lower as only 5% of households of minority communities had access to social insurance, while only 2% of poor households had access. This data shows a critical issue within the welfare delivery system of the Vietnamese government.

Basic Income (BI) is a welfare instrument currently discussed around the world as a policy to address income inequality and poverty. While a Universal Basic Income (UBI) programme would be financially unsustainable, a basic income programme which targets the necessary beneficiaries can raise poor households out of poverty. The Vietnamese government must target to achieve a welfare delivery system that reaches the disenfranchised population groups such as minority communities and rural communities and work to rein in the excesses of economic growth as a result of liberalisation and redistribute it to the population who were not able to capitalise on the opportunities of liberalisation due to the various sociopolitical barriers of Vietnamese society.

Conclusion

Looking at the data above, we can see that liberalisation has had a positive impact on Vietnam as it helped transform from a country overburdened with debt and inflation in the early 1980s to a country that consistently produces significant industrial and agricultural output.

Vietnam has moved to become a country which can export its agricultural output rather than be heavily dependent on its imports. However, a noticeable trade-off with the implemented liberalisation reforms is the rise of income inequality over time. Growing inequalities in wealth and income can play a major role in the continuing socioeconomic development of a state. In the case of Vietnam, with a GINI index of 35.7 in 2018, it can be stated that income inequality levels are relatively moderate; however, as Nguyen (2021) points out through their research, there are income disparities between urban and rural populations, and even within the urban population, there is significant income inequality. Noting this, it is vital that the Vietnamese government focus on meeting the needs of the population that has been left out of the benefits of liberalisation. The government has the capacity to identify these groups, and it is, therefore, feasible for the government to build a financial and infrastructural capacity to provide opportunities for these groups to reap the benefits.

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About The Author

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