

TAKING STOCK

AN UPDATE ON VIETNAM'S
RECENT ECONOMIC DEVELOPMENTS

Hanoi, July, 2014

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Recent Economic Developments

THE WORLD BANK

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ACRONYMS AND ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
CDS	Credit Default Swap
CIT	Corporate Income Tax
CPI	Consumer Price Index
EAP	East Asia and Pacific
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GDC	General Department of Customs
GIC	Growth Incidence Curves
GSO	General Statistics Office
IMF	International Monetary Fund
MOF	Ministry of Finance
MOIT	Ministry of Industry and Trade
MOLISA	Ministry of Labor, Invalids and Social Affairs
MPI	Ministry of Planning and Investment
NSCERD	National Steering Committee of Enterprise Reform and Development
ODA	Official Development Assistance
OOG	Office of Government
PAPI	Provincial Governance and Public Administration Performance Index
PCI	Provincial Competitiveness Index
PMI	Purchasing Manager Index
PPP	Purchasing Power Parity
SBV	State Bank of Vietnam
SOEs	State-owned Enterprises
SEGs	State Economic Groups
SGC	State General Corporations
TPP	Trans Pacific Partnership
VAMC	Vietnam Asset Management Company
VASS	Vietnam Academy of Social Sciences
VAT	Value Added Tax
VHLSS	Vietnam Household Living Standards Survey
WB	World Bank

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EXECUTIVE SUMMARY

Recent Economic Developments

Global growth is projected to pick up to 3.4 percent in 2015 and 3.5 percent in 2016, propelled by high-income countries. Developing country growth will benefit from these tailwinds, with growth projected to increase from 4.8 percent in 2014 to 5.5 percent in 2016—broadly in line with potential. Global growth projections for 2014, however, have been marked down from 3.2 percent to 2.8 percent on account of the bumpy start this year, buffeted by poor weather in the United States, financial market turbulence and the conflict in Ukraine.

The outlook for the East Asia and the Pacific region continues to reflect several counterbalancing factors, including domestic policy adjustment, volatile financing conditions, political crisis in Thailand, and sustained recovery in global demand for exports. Regional GDP growth is expected to slow down slightly to 7.0 percent by 2016, about 2 percentage points slower than the pre-crisis boom years but broadly in line with potential. Regional risks include volatility and eventual tightening of global financing conditions, possible setbacks in China's restructuring and a weaker contribution from net exports than assumed in the baseline. Potential escalation of regional political tensions presents additional risk to the outlook.

Improved global conditions have allowed Vietnam to consolidate gains in macroeconomic stability. Headline inflation fell from a peak of 23 percent in August 2011 to about 5 percent in June 2014 as a result of benign supply-side pressures and continued softness in domestic demand. Stronger external trade and capital account balances have enabled foreign exchange reserves to build up to an import cover of about 3 months, up from 2.4 months in December 2013. Recent tensions with China in the East Sea added some turmoil in the financial and foreign exchange markets, although the pressures appear to be abating. The State Bank of Vietnam (SBV) devalued the reference rate for the dong (effective June 19, 2014) by 1 percent to 21,246 per dollar, its first devaluation in 12 months. Sovereign risk spreads on Vietnam's credit default swap (CDS) have remained low despite regional tensions.

A widening fiscal deficit, however, presents growing macro challenges. The deficit target of 4.8 percent of GDP was overshot by 0.5 percentage points in 2013, with a similar outcome expected in 2014, largely on account of declining tax revenues. In response, the government is seeking to strengthen tax administration and broaden the tax base, most notably by requiring SOEs to pay dividends to the State Budget. Efforts are also afoot to rein in growth of recurrent spending and tighten controls over new investment capital projects. The proposed revisions to the State Budget Law (expected to be discussed by National Assembly in November 2014) offer important opportunities to further strengthen fiscal management. The public debt situation remains sustainable, though susceptible to systemic shocks – such as lower GDP growth, recapitalization of banks by the government, or fiscal costs arising from accelerated SOE restructuring.

Economic growth remains moderate and continues to come in below its potential. GDP growth was estimated at 5.4 percent in 2014, is projected to not exceed 5.5 percent before 2016. In the short run, this is linked to weakness in domestic demand. Longer-term (or trend) growth remains subdued due to a web of structural problems in state-owned enterprises and the banking sector, policy distortions that continue to thwart domestic private investment, skills shortages, and gaps in infrastructure and trade logistic services. Nonetheless, the improved global prospects bode well for Vietnam, given its close trade and investment linkages with the global economy.

Despite high labor force participation and a low unemployment rate (around 2 percent), labor market trends give some cause for concern. In particular, the unemployment rate is considerably higher among skilled workers, reflecting a skills gap that is acute among applicants for jobs in technical, professional and managerial occupations. Employers continue to report availability of skilled workers as a more severe binding constraint than labor market regulations or taxes. Moreover, informality rules in the labor market. In 2013, 63 percent of workers were in the informal sector, majority of them women.

The banking sector is tenuously stable. With a focus on addressing NPLs, banks remain cautious in expanding lending despite strong growth in deposits. Authorities have successfully tackled short-run liquidity pressures but structural reforms to address more fundamental weaknesses (related to poor asset quality, inadequate capital and weak governance) have moved at a slow pace. Circular 02 on loan classification and provisioning is a step in the right direction, but its full enforcement has been delayed till April 2015. The Vietnam Asset Management Company (VAMC) has thus taken over VND45.3 trillion worth of bad debts (against a targeted VND70-100 trillion) but is yet to develop a clear strategy to resolve them. Progress is partially hampered by gaps in the existing SBV regulation and the corporate restructuring framework. Though the cap for total foreign holdings remains unchanged at 30 percent (consistent with Vietnam's WTO commitments), Decree 01, issued in January 2014, now allows higher ownership in special cases subject to Prime Ministerial approval. The SBV has targeted 6-7 M&As in the banking sector in 2014, and a 50-percent reduction in the number of commercial banks in the next 3 years.

The pace of SOE reforms appears to have picked up. The recently-issued Resolution 15 contains a comprehensive action plan to step up SOE divestment. Two related laws—on Management of State Capital Invested in Enterprises and on the Enterprise Law—are expected to be approved by end-2014. The government equitized 74 SOEs in 2013 (thrice the number in 2011 and 2012), and the momentum continued in Q1-2014. However, the equitization process has mostly focused on small SOEs, and only a small share of equitized assets has been transferred to non-state shareholders. Some progress has been made against Decree 71, requiring all non-bank SOEs to fully divest from 5 non-core risky areas by 2015. Future progress will require tightening information disclosure, performance monitoring, and corporate governance, strengthening transparency of the divestment process and streamlining lines of accountability of the responsible Ministries. Allowing enterprises to divest below book values will also be important.

Medium-term outlook is for moderate GDP growth with following macroeconomic risks: (i) Domestic private sector demand remains sluggish and susceptible to negative news; (ii) The baseline assumes no escalation in the tensions with China. If the situation were to escalate, international investment, which has been a critical pillar of growth, is likely to be deterred; (iii) With elevated NPL ratios and balance sheet positions intertwined with the SOE sector, the banking sector remains susceptible to sudden shifts in depositor confidence and unexpected news on SOE profits or real estate price movements. While seeking faster growth, the government also needs to ensure that it is inclusive, requiring continued vigilance on inequality.

Special Focus on Inequality in Vietnam

Inequality has become a topic of public concern in Vietnam and around the world. Social movements linked to concerns about inequality have unfolded in the wake of the 2008 global financial crisis, and perceptions of rising inequality were among the drivers of the Arab Spring revolutions of 2011. Vietnamese citizens are concerned about inequality, and many have the sense that inequality is rising. A low-income person in Ho Chi Minh City interviewed in a recent study expressed a common sentiment:

“The rich and poor are increasingly getting distant from each other. I have the feeling that the poor have been marginalized. With money, they can invest in the best possible schooling for their children while our children lag behind forever. As a saying goes, a son of the king will end up a king while a child of a lay woman who takes care of a Buddhist temple will end up sweeping the fallen banyan tree leaves.”

Concerns over inequality have arisen despite Vietnam's rapid growth with only modest increases in income inequality. Mean incomes of the bottom 40 percent grew at 9 percent annually over the 2 decades up to 2012, a tremendous example of shared prosperity. In 2012, Vietnam's income Gini coefficient was 39.4, placing it in the middle of the global Gini distribution. In contrast, China's Gini coefficient has steadily risen since the onset of economic reforms in the 1980s and remained high at 47.4 in 2012.

The concerns in part reflect the substantial differences in economic conditions by geography and ethnic group. Poverty is concentrated in the North West and North East, in the border areas of the North Central and South Central Coasts and in parts of the Central Highlands. Ethnic minority groups make up 15 percent of the country's population but account for 70 percent of the extreme poor.

Popular concern about inequality and demand for policy responses is likely to grow over time as more Vietnamese move to cities and are exposed to visible differences in welfare. Perceptions about inequality matter, because the potential "costs" of inequality, including a decline in social cohesion and trust, are driven largely by perceptions. There is already substantial demand for redistributive social policy to narrow inequalities in Vietnam; this demand is likely to persist and to rise as Vietnam continues to urbanize.

Inequality of Opportunity

There is substantial inequality of opportunity in Vietnam. Children from poor households are far less likely to attend secondary school and have access to sanitation facilities and healthcare, and much more likely to be malnourished. "Opportunity" refers to children's circumstances which affect their outcomes later in life. Inequality of opportunity can be viewed as unfair because it means that children's chances for prosperous lives are determined by factors beyond their control.

Chronic malnutrition is a key source of early disadvantage for poor children in Vietnam. While Vietnam has made considerable progress in improving child nutrition, almost a quarter of children below the age of 5 remain stunted, i.e. they are short for their age as a result of chronic malnutrition. Stunting is considerably more prevalent among ethnic minority children and children from poor households or living in rural areas or born to mothers without any formal education.

Despite progress towards achieving universal health insurance coverage, approximately 34 million people are not covered by any type of health insurance. A broad swath of the population is at risk of financial hardship due to out-of-pocket health expenditures. Richer households also receive higher quality health care than poorer households.

Inequality in learning is already established before children start school in Vietnam, and continues to exist at the lower- and upper-secondary level. Assessments of school readiness among 5 year-old children in public preschools show greater vulnerability among children from poor households in Vietnam. Despite significant progress in closing enrolment gaps, educational investment continues to be unequally distributed at lower- and upper-secondary levels.

Inequality of opportunity by gender remains but has declined significantly over time. The gender gap in primary schooling has been eliminated, and women have caught up and even surpassed men in terms of attaining college degrees, except in certain ethnic minority groups. The gap in labor force participation and earnings has narrowed considerably.

High End Inequality

Much of the worry about rising inequality seems focused on the gap between the very wealthy and the bulk of the population. Unfortunately, little is known about inequality at the high end (the very top income segment—top 1 percent, for example—of the population), because household surveys do not capture the very wealthy.

Approximately one in every million Vietnamese is super-rich. Vietnam was estimated to have 110 super-rich in 2013, meaning with assets of US\$30 million or more excluding a principal residence. This was a substantial increase from 34 super-rich in 2003. However, neither the number of super-rich nor the growth rate is extraordinary for Vietnam at its income level. Around the world, the number of super-rich has grown rapidly in the last decade, fueling concerns about rising inequality in Vietnam and at the global level.

Perceptions of Inequality

Results from a new perceptions survey show substantial concern about inequality in Vietnam. A majority of those surveyed, and eight in ten urban residents, said they worry about disparities in living standards in Vietnam. Urban residents express the strongest concern about inequality. Urban people see wider income gaps between the rich and the poor.

Disparities in access to and quality of health care are a greater focus in rural areas while disparities in education quality or access are a greater concern in urban areas. Urban residents were more likely to report income inequality as a source of concern than rural residents.

The majority of respondents say that disparities between rich and poor are driven in part by talent and hard-work. Rising income inequality is largely viewed as acceptable among focus group respondents in the qualitative studies if rising disparities in incomes are associated with hard-work, effort, investment in education, and legitimate-income generating activities.

Concern about disparities between the rich and poor are greater when a person believes that the disparities are driven by illegitimate practices. Respondents who believe that the rich are better off due to using illegitimate means to earn income are more likely to think that income disparities in Vietnam are a problem, and are also more likely to think that disparities in education and health are problematic. Urban people are far more likely to see corruption, family background and illegitimate practices as reasons for why rich people are better off.

Respondents of the perceptions survey strongly support government redistributive policies as a means of reducing inequalities in society. Over eight in ten respondents agreed that “the government should transfer a part of the income of the wealthiest/richest group to the poorest group”.

A policy focus on further tackling barriers to inequality of opportunity is a sensible response to concerns about equality, for several reasons. First, inequalities in opportunities affect the ability of children to succeed in life and imply that Vietnam is not making the most of its most important asset, its youth. Second, inequality of opportunity is seen as a worrying form of inequality in Vietnam, particularly among rural and poorer people. Third, inequalities driven by circumstances – where poverty begets poverty, wealth begets wealth – are associated with more limited economic and social mobility.

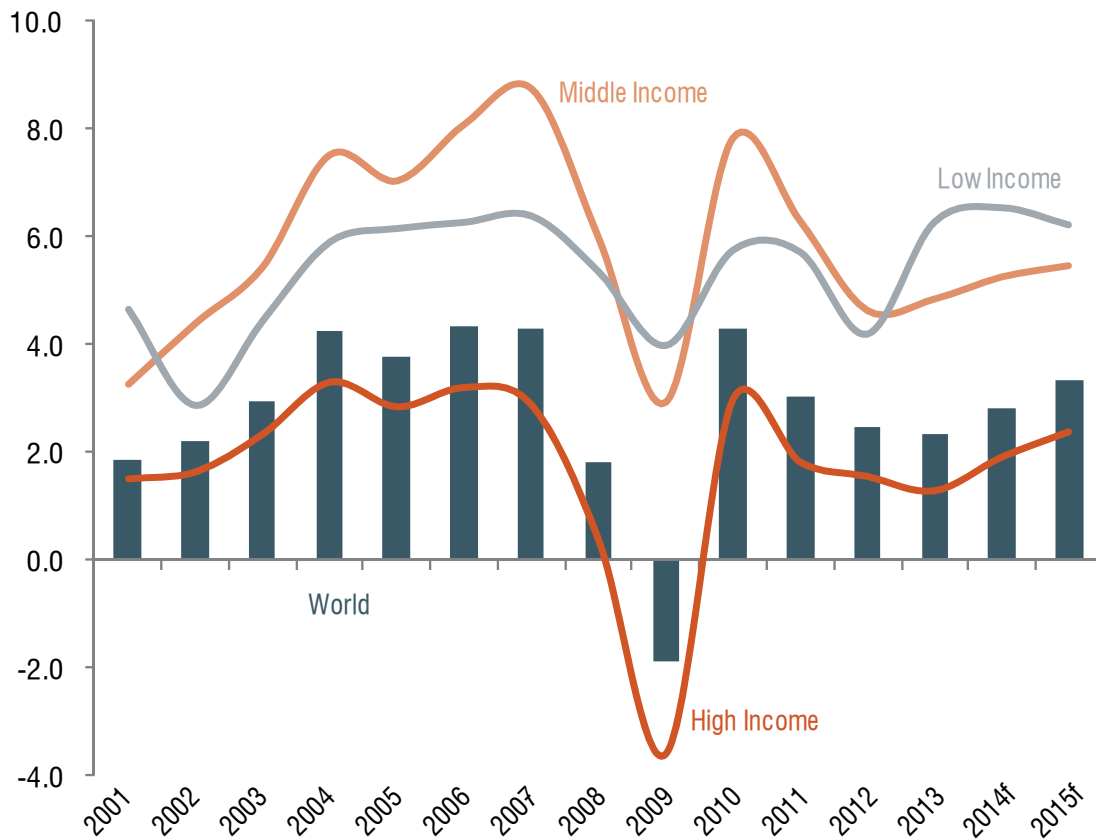
An aerial photograph of a city, likely Hanoi, Vietnam, taken at sunset. The sky is filled with soft, orange and yellow clouds. The city below is densely packed with buildings of various heights and colors. A large, circular roundabout is visible in the center of the frame. A large, semi-transparent blue rectangle is overlaid on the lower left portion of the image, containing the section title in white text.

SECTION I: RECENT ECONOMIC DEVELOPMENTS

I.1. External Economic Environment

1. **Global growth is projected to pick up to 3.4 percent in 2015 and 3.5 percent in 2016**, propelled by high-income countries, where the recovery will gain momentum as fiscal consolidation slows, employment begins to stabilize or rise, and financial conditions remain accommodative. Developing country growth will also benefit from these tailwinds, with growth projected to rise gradually, reaching 5.4 percent in 2015 and 5.5 percent in 2016—broadly in line with potential. Global growth projections for 2014, however, have been marked down to 2.8 percent (from 3.2 percent in January), on account of the bumpy start this year buffeted by poor weather in the United States, financial market turbulence and the conflict in Ukraine. The outlook for developing countries is for flat growth in 2014, marking the third year in a row of sub-5 percent growth.

Figure 1.1: A gradual pickup in global growth, led by high-income economies



Source: World Bank, June 2014

2. **The outlook for the East Asia and the Pacific region continues to reflect several counterbalancing factors**, including domestic policy adjustment, volatile financing conditions, political crisis in Thailand, and bumpy, but sustained recovery in global demand for exports. Overall growth in the region is expected to slow to 7.0 percent by 2016 (table 1.1), about 2 percentage points slower than the pre-crisis boom years but broadly in line with potential. Growth for China is expected to ease gradually to 7.6 percent in 2014 and to 7.4 percent by 2016, with less, but only gradually declining reliance on credit-induced investment-led growth. Regional growth (excluding China) is projected to accelerate to 5.5 percent by 2016 as external demand solidifies, policy adjustment is completed and tensions ease in Thailand. Regional risks include volatility and eventual tightening of global financing conditions, possible setbacks in China's restructuring and a weaker contribution from net exports than assumed in the baseline. Potential escalation of regional political tensions presents additional risk to the outlook.

Table 1.1: East Asia Pacific GDP Growth

	2012	2013f	2014f	2015f	2016f
Developing East Asia	7.4	7.2	7.1	7.1	7.0
China	7.7	7.7	7.6	7.5	7.4
Indonesia	6.3	5.8	5.3	5.6	5.6
Malaysia	5.6	4.7	4.9	5.0	5.0
Philippines	6.8	7.2	6.6	6.9	6.5
Thailand	6.5	2.9	2.5	4.5	4.5
Vietnam	5.3	5.4	5.4	5.5	5.8
Developing East Asia exc. China	6.3	5.3	5.0	5.6	5.5
<i>Assumptions about the external environment:</i>					
World	2.5	2.4	2.8	3.4	3.5
High-income countries	1.5	1.3	1.9	2.4	2.5
Developing countries	4.9	4.8	4.8	5.4	5.5

Source: World Bank, June 2014

I.2. Recent Economic Developments in Vietnam

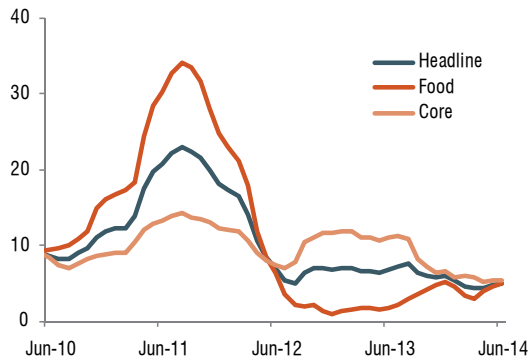
I. 2.1. Macroeconomic Stabilization Further Consolidated

3. **Subdued domestic demand and continued strength in the external sector have helped Vietnam consolidate macroeconomic stability** (figure 1.2). Headline inflation (year-on-year) fell from a peak of 23 percent in August 2011 to about 5 percent in June 2014, and core inflation from 14 percent to 5.4 percent. This reflects two main factors. First, economic slack is still significant as GDP remains below its estimated potential. Second, supply-side pressures have been benign, benefiting especially from food and energy-related price stability.

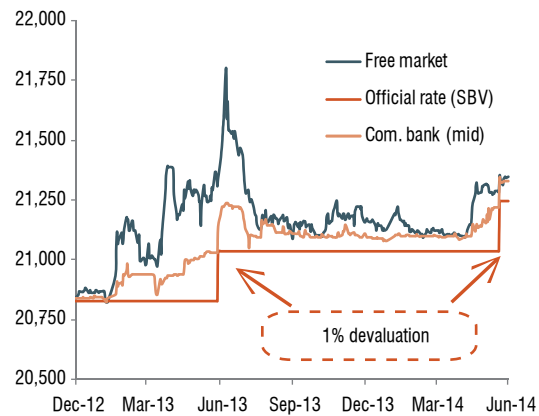
4. **Stronger external trade and capital account balances enabled foreign exchange reserves to build up** to an import cover of about 3 months in April 2014, up from 2.4 months in December 2013. Recent tensions with China in the East Sea added some turmoil in the financial and foreign exchange markets, but conditions have since eased. The Vietnam Stock Exchange index fell 11 percent in the first half of May 2014, before recovering substantially to close the month down only 2.8 percent. After a long period of stability, the open-market value of the Vietnamese dong and the price of gold suddenly increased in May 2014, immediately after maritime tensions flared up. In response, effective June 19 the State Bank of Vietnam increased its VND reference rate by 1 percent from 21,036 to 21,246 per dollar, constituting a de facto devaluation. This was the first adjustment to the reference rate in almost a year. Sovereign risk spreads on Vietnam's credit default swap (CDS) have remained relatively subdued -- at levels seen just before the global financial crisis in 2009 -- despite regional tensions.

Figure 1.2: Relatively stable macroeconomic environment

**Inflationary is easing
(Year-on-year, percent)**



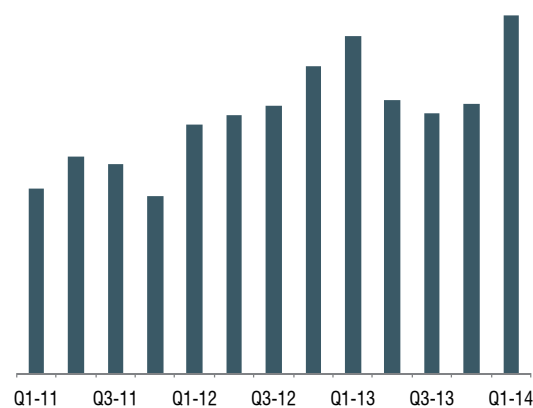
**Exchange rate is relatively stable
(Vietnam dong per US dollar)**



Sovereign risks (bps)



Foreign reserves (months of imports)



Source: State Bank of Vietnam, IMF and WB

1.2.2. Economic Growth Continues to Perform Below Potential

5. **Economic growth remains moderate and continues to come in below its potential.** GDP growth improved slightly to 5.4 percent in 2013 compared to 5.3 percent in 2012, and is projected to flatten in 2014 and improve slightly to 5.5 percent in 2015. In the short run, the subdued growth performance is linked to soft domestic demand. Longer-term (or trend) growth remains held back by a web of structural problems in state-owned enterprises and the banking sector, policy distortions that continue to thwart domestic private investment and competition in key sectors, a widening skills gap, constrained access to finance, relatively high trade logistics costs, and the continued overbearing presence of the SOEs.

6. **Vietnam's economy appears to have had a relatively brisk start in 2014,** with GDP growth in the first half of the year recording a slightly faster pace than in the same period of the previous two years (table 1.2). The acceleration in agricultural output was largely due to better performance of the fishery sub-sector and improved prices of some agriculture products. The services sector benefited from strong performance in tourism; tourist arrivals increased by 21 percent in the first half of the year compared to the same period in 2013. There are

positive signs in the manufacturing sector, reinforcing the optimistic perception of the Purchasing Managers Index (PMI) which came in at 52.3 points in June, remaining above the crucial 50 point mark for the ninth consecutive month. The somewhat modest growth in construction reflected a gloomy real estate sector and consolidation of public investment.

Figure 1.3: Economic growth is slightly improving but still in downward trend

Quarterly GDP growth (percent)

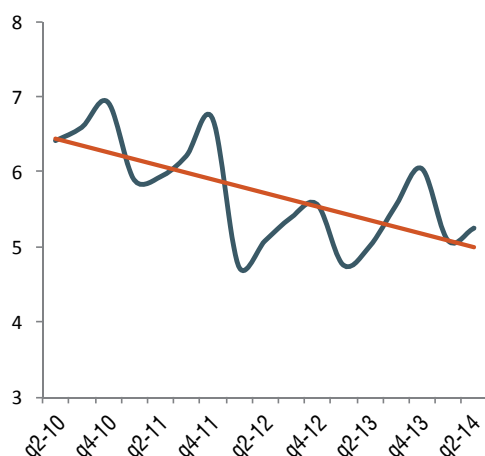


Table 1.2: GDP growth by sector (supply side, percent)

	H1 2011	H1 2012	H1 2013	H1 2014
Total GDP	5.9	4.9	4.9	5.2
Agriculture	3.9	2.9	2.1	3.0
Industry and construction	6.6	5.6	5.2	5.3
<i>Manufacturing</i>	10.3	5.7	5.8	7.9
<i>Construction</i>	-0.2	2.0	5.1	4.6
Services	6.2	5.3	5.9	6.0

Source: GSO

7. **Domestic demand in Vietnam remains soft, causing GDP growth to come in below its long-term potential.** Growth in retail sales – a proxy for private consumption eased to 5.7 percent in real terms in June due to weak consumer confidence (figure 1.4.a). Total investment in H1-2014 grew by 8.2 percent in nominal terms, compared to 5.2 percent in H1-2013. Foreign direct investment (FDI) remained substantial, but private domestic investment was dampened by weak credit growth and business sentiment and challenges in the real estate sector (Box 1.1). The share of domestic private investment in GDP stood at only 10.7 in H1-2014, well below the reading of 13.9 percent in 2010 (figure 1.4.b). At the same time, Vietnam's trade account surplus (for five consecutive quarters now) implies that net exports continue to make a positive contribution to GDP growth.

Figure 1.4: Weak domestic demand

Figure 1.4.a: Retail sales growth (percent)

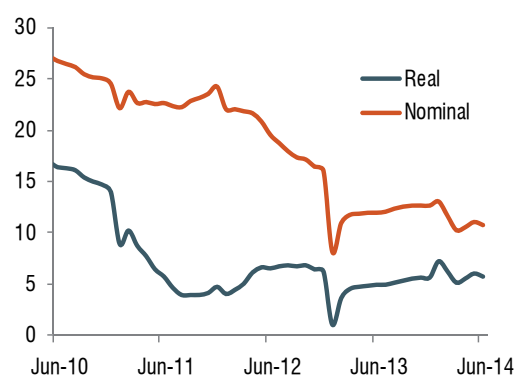
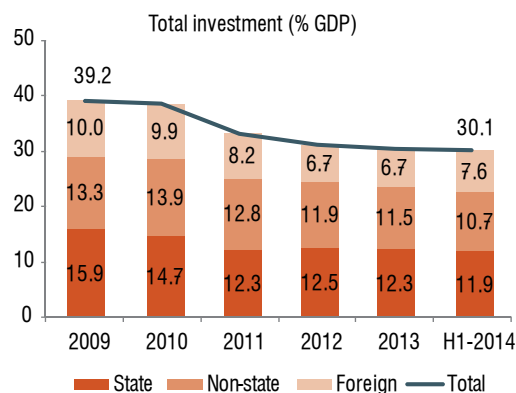


Figure 1.4.b: Investment (percent GDP)



Source: GSO

Box 1.1: Challenges to real estate sector

The real estate market to a large extent remains frozen, causing a series of investment projects to stay unfinished and many apartments unsold. The Ministry of Construction estimates that the value of property inventories by May 2014 could be as high as VND85 trillion (about US\$4 billion). Parts of the real estate sector are unlikely to bounce back soon, further dampening construction activities and production of building materials. Difficulties in the real estate sector also raise the level of bad debts, which threaten the balance sheets of banking sector.

The softness in the real estate market reflects reduced credit availability as well as a structural mismatch between the supply and demand. While demand is relatively strong for property at the low-to-medium-cost end, a large share of properties is aimed at the higher end of the market. In response, the government has committed to ease the conditions for individuals and real estate companies to access to the government's VND30 trillion (\$1.4 billion) housing stimulus package targeting low-income segments. However, as of May 2014, only 7 percent of this package was disbursed.

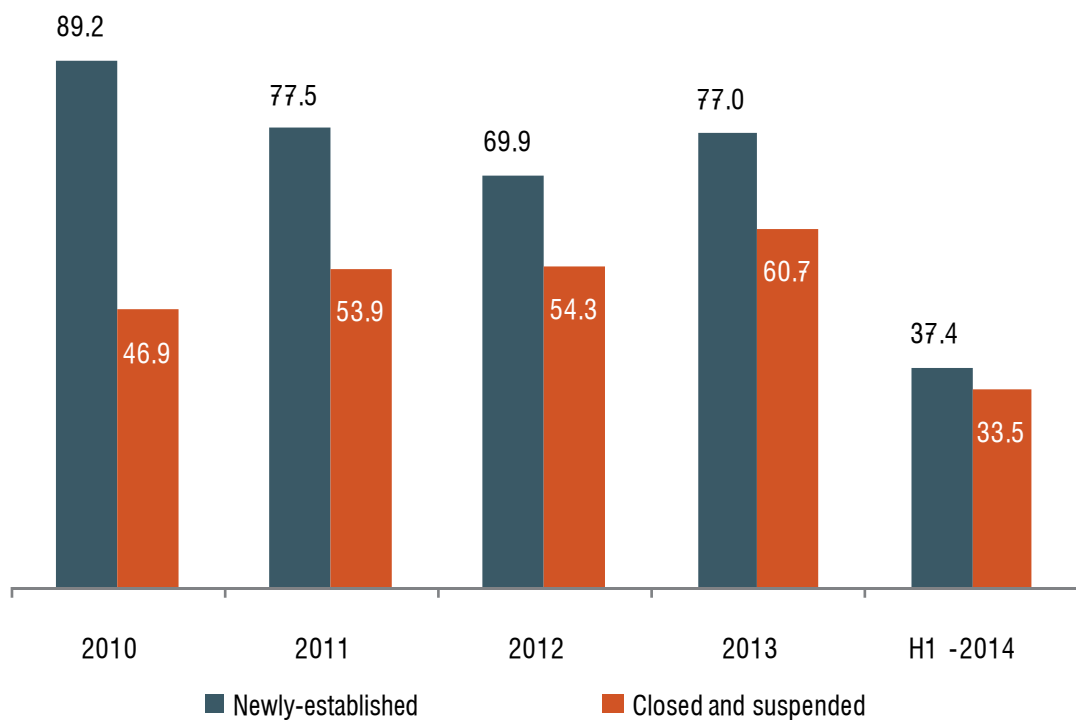
Legal reform relating to foreign ownership of properties could also play an important role in the recovery of the property market, particularly at the higher end of the market. It is expected that the revised Law on Real Estate Business and Law on Residential Housing, which will be discussed and approved by the National Assembly later this year, could relax current restrictions and allow foreigners to own residential housing.

I.2.3. Private Enterprise Sector Still Struggling

8. **A growing number of domestically-owned businesses have been closing or suspending operations,** and their gap with the number of new enterprises has been shrinking (figure 1.5). A total of 61 thousand firms closed or suspended business in 2013 compared to 47 thousand in 2010; a further 34 thousand were added to this category in the first half of 2014, a 16 percent increase over the same period last year. Trading enterprises suffered most, accounting for 39 percent of all businesses that were liquidated or whose operations were suspended (figure 1.6). A survey by the Vietnam Chamber of Commerce and Industry shows that difficulties in finding suitable markets, limited access to financial resources, and high costs of inputs for production were among the main reasons behind enterprise liquidations or suspensions.¹ On a more positive note, the business environment has benefited from improvements in administrative procedures (Box 1.2).

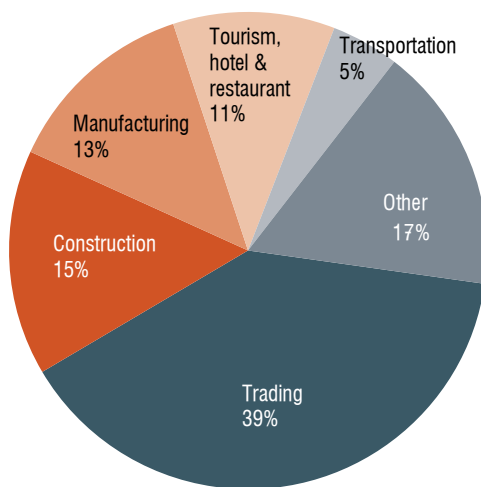
¹ Vietnam Business Annual Report 2013 of VCCI, Hanoi April 2014.

Figure 1.5: Newly-registered and closed enterprises (thousands)



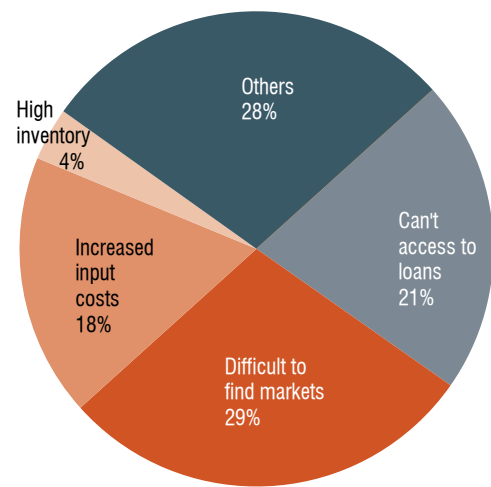
Source: MPI

Figure 1.6: Liquidated and suspended enterprises by business (percent total)



Source: MPI

Figure 1.7: Causes of liquidated and suspended enterprises (percent of responses)



Source: VCCI

Box 1.2: Toward an enabling and transparent public administration

Business environment in Vietnam has seen some improvements in recent years, benefiting from the simplification of administrative procedures, the introduction of one-stop shops for administrative procedures and the reduction of licensing requirements (PCI annual reports). The latest improvement is the introduction of online business registration in 2013, which cuts paperwork, enabling firms to receive business licenses within three-and-a-half days from the submission of the registration, compared to five days with paper registration. The improvement also lowers the scope for corruption and regulatory interference. However, out of the 77,000 newly-registered firms in 2013, only about 2,000 availed of the online business registration (<http://dangkykinhdoanh.gov.vn>).

Provincial authorities are also seeking to facilitate entry of domestic and foreign investors. Provinces that have performed particularly well in this regard include Quang Ninh, Thua Thien Hue, Bac Ninh, Da Nang, and Dong Thap, earning them top rankings in the annual PCI ratings and significant FDI inflows.

Somewhat similar to the PCI, the Vietnam Provincial governance and Public Administration Performance Index (PAPI) has annually surveyed citizens' views on the quality of provincial governance since 2009. As a response to the PAPI, last year close to a dozen provinces either issued a directive and/or organized diagnostic workshops to address constraints identified in the PAPI survey. The examples of Danang and Hanoi are particularly instructive in terms of their proactive responses to the PCI and PAPI.

When Da Nang lost its place among the top five provinces in the 2012 PCI rankings, provincial leaders looked more closely at business constraints, especially in terms of transparency and access to land. The province held regular dialogue with the business community. As a result, Da Nang now serves as best practice in the country in terms of providing easy online access to information through the provincial portal and seeking online feedback from firms and citizens on the quality of provincial services. Because of its proactive response, Da Nang moved back to the top tier in the 2013 PCI survey and again stood in the top performing provinces in the 2013 PAPI.

Hanoi is another good example of local authorities showing commitment to create a more enabling environment for businesses. After scoring at the lower end of the PCI results for an extended period, provincial authorities organized regular meetings with relevant departments including the DPI and DONRE to discuss ways to improve Hanoi's performance on the PCI. Directive 13/CT-UBND was issued on June 19th 2013 which pointed out weaknesses and detailed an action plan to improve PCI scores. The actions included streamlining administrative procedures, enhancing transparency, especially in access to land and land allocation, reducing business licensing requirements. Furthermore, the Hanoi's DONRE issued a document No. 6684/UBND-TNMT dated September 12th, 2013 stipulating the disclosure of the city's projects portfolio with information on land use and allocation. The city's efforts were also evident in the World Bank 2013 Land Transparency Survey (forthcoming) as Hanoi jumped to the top tier in disclosing land information online from being a mid-performer in a similar survey in 2010.

1.2.4. Foreign-Invested Sector Remains an Important Engine of Export Growth

9. **Foreign direct investment has leveled off in recent months.** In the first six months of 2014, foreign investors committed US\$ 6.8 billion to Vietnam – a 35 percent reduction compared to the same period last year (figure 1.8). At the same time, foreign-invested firms disbursed US\$ 5.8 billion – an increase of 0.9 percent in nominal terms over the previous year (figure 1.9). By end-June 2014, Vietnam had investments from more than 100 countries and territories, with total accumulated FDI commitment of around US\$240 billion in a broad and diversified range of investment activities. The foreign-invested sector contributes almost 20 percent of Vietnam's GDP, 25 percent of total investment, two thirds of total exports and millions of direct and indirect jobs.

Figure 1.8: Committed and Disbursed FDI (US\$ billion)

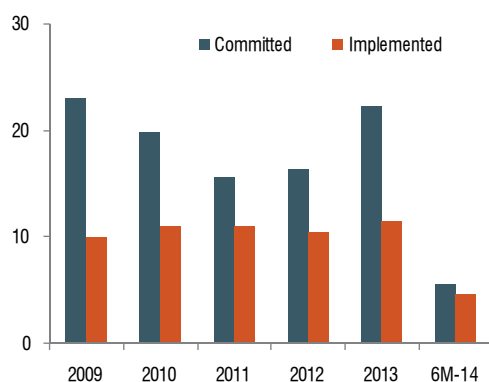
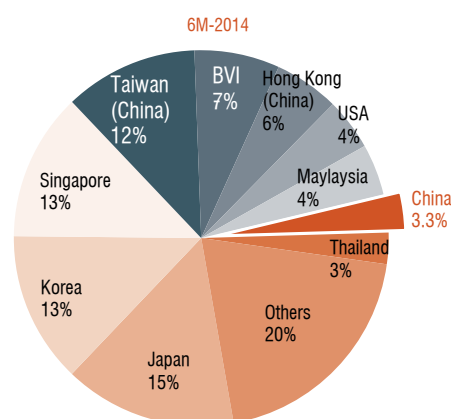


Figure 1.9: Committed FDI by sources (% of total)

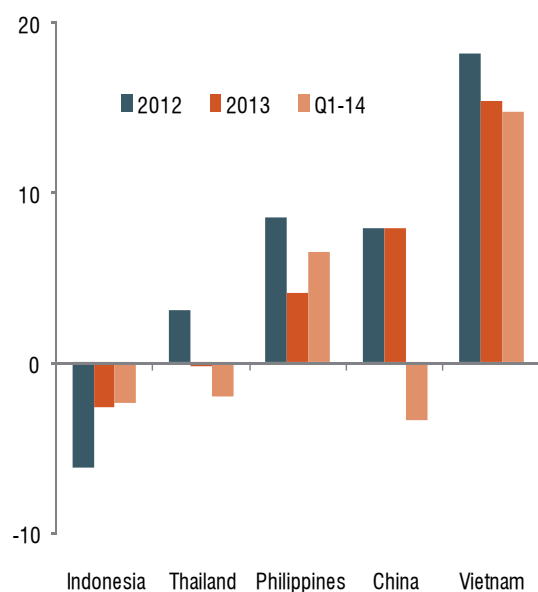


Source: Ministry of Planning and Investment

10. **Foreign investors have generally held a positive view of Vietnam's investment climate**, appreciating the country's political stability, improving macroeconomic stability, a motivated and educated workforce and proximity to the Chinese supply chains. Nonetheless, some key issues need closer attention. More immediately, this would require assuaging investor concerns regarding safety and security arising from the recent rioting that followed the East Sea stand-off with China. Decisive measures by the Vietnamese government to prevent further rioting and help victims cope with the recent damage have been well received by investor community. Beyond that, foreign investors' confidence hinges on preserving macroeconomic stability, and accelerating structural reform to create a level playing field for all enterprises and businesses. More efforts are also needed to strengthen market mechanisms, accelerate administrative reforms and strengthen human-resource training. Vietnam also needs to upgrade its infrastructure especially in areas such as transport, ports, and power that investors have often pointed to as constraints.

11. **Exports continue to exhibit strong growth thanks to the solid performance of the foreign-invested sector.** Export value in US dollar terms is estimated to have grown by 15.9 percent (y/y) in May 2014, outperforming other countries in the region by a comfortable margin (Figure 1.10). Noteworthy additions to the export basket—including cell phones and parts, computers, electronics and accessories, and automobile parts—have been largely high-tech and high-value addition products (Table 1.3). These also emerged as the largest and fastest growing export items since 2013. At the same time, Vietnam's traditional labor-intensive manufacturing exports such as garments, footwear and furniture continue to sustain solid growth. The resurgence this year in export growth from the domestically-owned sector is also encouraging. Trade has been particularly brisk with China, which has now emerged as Vietnam's largest trading partner (Box 1.3).

Figure 1.10: Vietnam's merchandise export value (growth in percent)



Source: General Department of Customs and WB

Table 1.3: Vietnam key exports (growth in percent)

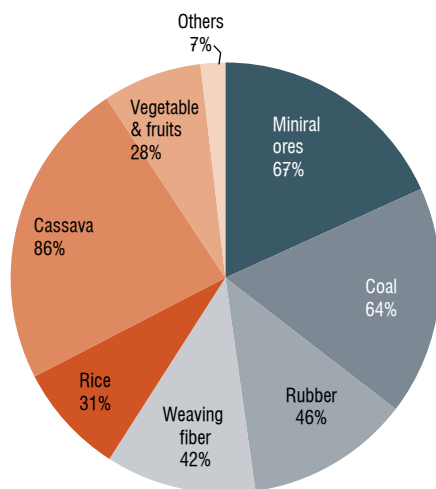
	2012	2013	5M-14
Total export value	18.1	15.4	15.4
Crude oil	13.6	-11.6	2.0
Non-oil	18.5	17.5	16.2
Agriculture and fishery	6.0	-5.5	11.9
Rice	0.4	-20.4	-5.3
Low cost manufacturing	13.9	18.2	17.3
Garment	14.2	18.9	17.0
Hi-tech	85.7	54.9	17.8
Phones and parts	98.8	67.1	30.6
Others	7.4	9.4	15.8
<i>Domestic sector</i>	1.1	4.0	12.0
<i>Foreign invested sector</i>	31.1	22.0	17.1

Box 1.3: China and Vietnam bilateral trade relations

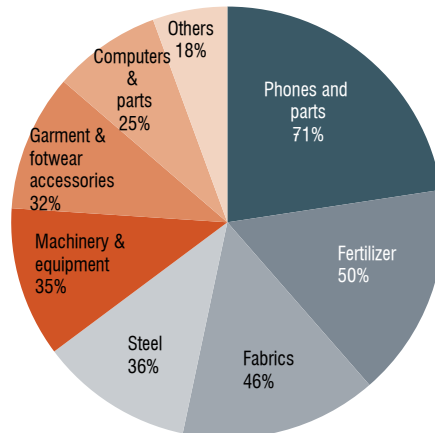
China has become Vietnam's largest trading partner, accounting for 19 percent of Vietnam's total trade turnover (import + exports); China accounts for around 10 percent of Vietnam's exports and 28 percent of its imports. Trade between the two countries has jumped more than 10 times over the last 10 years, from US\$ 4.9 billion in 2003 to 50 billion in 2013.

Vietnam's trade deficit with China is consistently rising, reaching nearly US\$24 billion in 2013. The deficit can be attributed mainly to the types of products traded between the two countries. The majority of goods exported by Vietnam are raw materials or agricultural products (Box 1.3, figure 1), while Vietnam's top imports from China range from machinery, equipment, steel, cars, computers and parts, and motorbike parts to high-value-added intermediate goods and production inputs for exports (Box 1.3, figure 2). This trend is similar to the trade dynamics in many other developing countries, where China has gradually displaced advanced economies as their primary trading partner. This process has been facilitated by growing intra-enterprise trade by multi-national companies, and a dramatic decline in logistics costs.

Box 1.3: Figure 1. Key exports to China
(% of Vietnam's total exports)



Box 1.3: Figure 2. Key imports from China
(% of Vietnam's total imports)

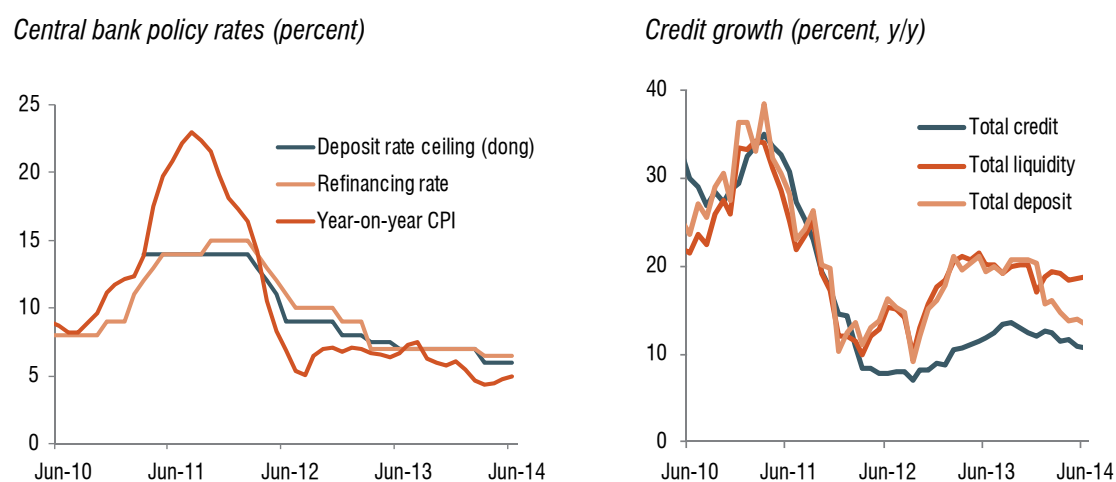


Source: General Department of Customs

1.2.5. Credit Growth Remains Slow Despite Further Monetary Policy Easing

12. **The moderating inflation trend has enabled the State Bank of Vietnam (SBV) to carry out monetary expansion in an effort to stimulate domestic demand.** The SBV has eased the policy interest rates by a cumulative 850 basis points since early 2012; the discount and refinancing rates stand at 4.5 percent and 6.5 percent, respectively. The SBV has also cut the cap on deposit rates to 6 percent and the maximum lending rate to 8 percent for five priority sectors, including agriculture, exports, supporting industry, small and medium-sized enterprises and high-tech firms. In May 2014, the Prime Minister issued Directive 11/CT-TTg directing credit institutions to proactively lend to viable projects; implement new pilot agricultural lending programs; and allocate credit to priority sectors, especially agricultural sector and rural development. Nonetheless, the efficacy of the monetary policy has been limited. Credit growth remains sluggish, coming in at only 2 percent (year-to-date) in June 2014 compared to the annual target of 14 percent. Credit activity is hampered by growing risk aversion among banks saddled with high NPL ratios as well as weak credit demand on account of the low consumer and investor confidence among the private sector.

Figure 1.11: Subdued credit growth in spite of loosening monetary stance



Source: State Bank of Vietnam

1.2.6. Government's Budget Faces Growing Revenue Pressures

13. **Slowing revenue collections have contributed to a widening fiscal deficit,** which reached 5.3 percent of GDP in 2013 by government accounting standards (5.6 percent by GFSM 2001 standards) compared to a target of 4.8 percent in the 2013 State Budget.² The National Assembly in December 2013 adopted the 2014 State Budget with a projected deficit equaling 5.3 percent of GDP according to government accounting standards (6.4 percent by GFSM 2001 standards). The government has reported to the National Assembly that the budget deficit is among 2 of 15 high level targets set in the Socio-Economic Development Plan (2011-2015) that are off-track.³

² By GFS Manual 2001 standards the deficit is estimated to have increased from 2.8 percent of GDP in 2010 to 5.5 percent of GDP in 2013. These are preliminary figures based on the government's first estimates of 2013 fiscal outturn.

³ The Government of the Socialist Republic of Vietnam, "Report on Assessment of SEDP Outcomes in 2013, and SEDP Implementation in First Half of 2014," Ref.No:148/BC-CP, May 19, 2014.

14. **Revenue collection fell from an estimated 27 percent of GDP in 2007 to 21 in 2013.** Tax revenues alone fell by 4 percentage points (from 22 percent to 18 percent of GDP) over the same period (figure 1.12), as a combination of slower growth and tax relief for enterprises led to lower buoyancy of Corporate Income Tax (CIT) and Value Added Tax (VAT).⁴ In addition, collection of trade taxes fell due to tariff cuts, as did revenue from land sales because of slower domestic investment. SOEs' and the domestic private sector's CIT contributions (nearly 35 percent of total revenue) declined in nominal terms in 2013, while foreign-invested firms' CIT contributions increased (figure 1.13). Revenue projections in the 2014 State Budget are conservative, showing a 1 percent decline in total collections compared to the 2013 estimates. Government revenue collections in the first quarter of the year are on track relative to budget projections (figure 1.14), while spending seems a bit behind schedule (figure 1.15).

Figure 1.12: Major Taxes (% of GDP)

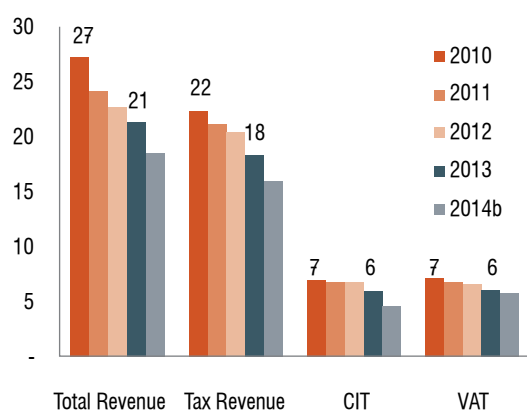
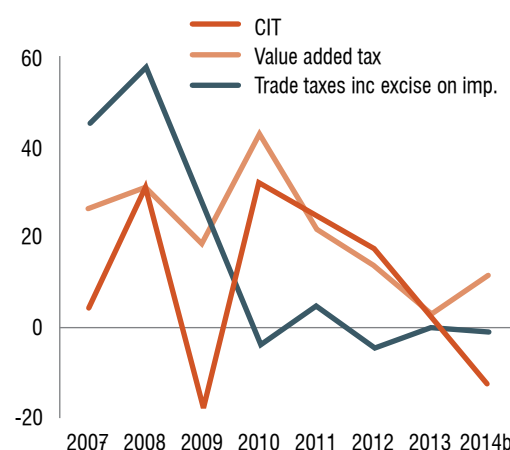


Figure 1.13: Collection of Major Taxes (% change)



Source: WB staff estimates

Figure 1.14: Tax collection Q1-2014 (VND Billion)

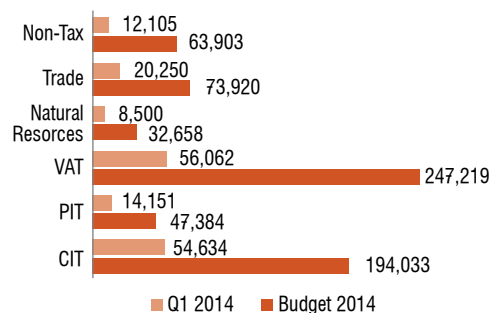
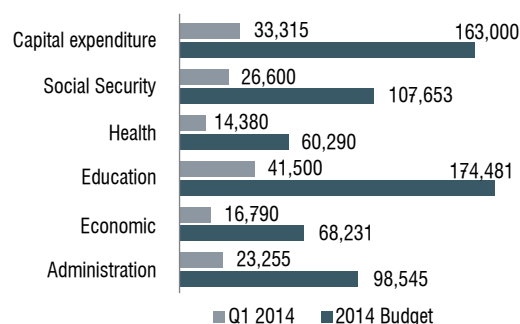


Figure 1.15: Government expenditure Q1-2014 (VND Billion)



Source: WB staff estimates

⁴ CIT and VAT constitute just over half of total revenue in Vietnam.

15. **The government is working on measures to strengthen tax administration and policy.** The revised Law on Tax Administration (November 2012) has introduced several new provisions to increase efficiency of tax administration, adopt Advance Pricing Arrangements (which should reduce loss from transfer pricing), and strengthen collections through improved tax audit and risk-based management. On tax policy, the government is expected to raise selected excise tariffs and adjust import tariffs on petroleum, and is looking at clearer requirements for SOEs to pay dividends to the State Budget⁵ – at the same time it needs to broaden the tax base and reduce exemptions.

16. **The government has also stepped up efforts to control expenditure.** Overall spending in the 2014 State Budget is expected to grow by 3 percent in nominal terms from the 2013 estimated outturn, compared to an average of 16 percent nominal growth in 2011-2013. On the capital budget side, attention has been focused on completing ongoing projects; new projects are approved only in exceptional cases. For capital investments there are now stricter provisions on spending of revenue collected over what was planned in the original budget. Ordinarily, provinces have discretion to spend a portion of the over-realized revenue on new capital projects. However, now these receipts have to be channeled to existing appropriations and for exceptional situations only such as natural disasters. If provincial authorities raise below what was budgeted, then they have to first find financing from existing sources (e.g. Financial Reserve Fund) before they can request additional transfers from the central government. As a result of these measures, total capital spending (including off-budget) is estimated to have fallen from around 11.6 percent of GDP in 2010 to an estimated 7.8 percent in 2013.

Figure 1.16: Capital and Recurrent Expenditure (% GDP) and Capital to Recurrent Ratio

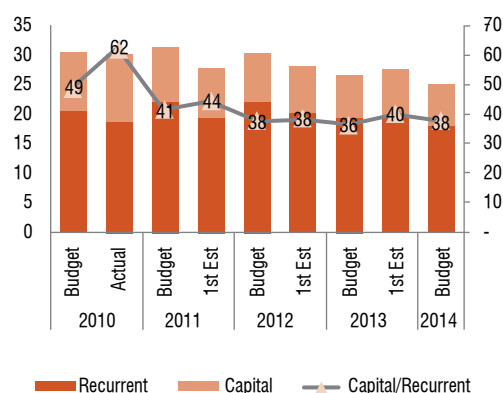
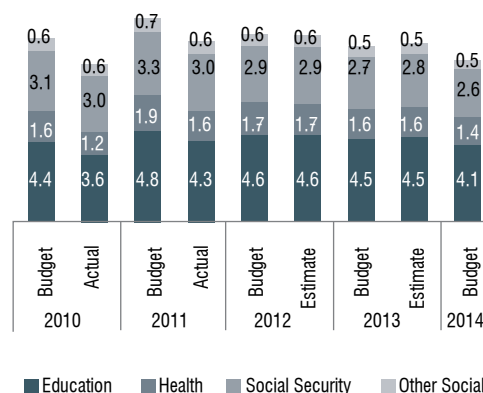


Figure 1.17: Social Sector Recurrent Spending (% GDP)



Source: WB staff estimates

17. **The revision of the State Budget Law offers important opportunities to further strengthen fiscal management in Vietnam.** In particular, the revision can help address important issues around medium-term budgeting; the roles and responsibilities of the National Assembly and the People's Councils; transparency of the State Budget; and inter-governmental fiscal relations. A summary of these issues is provided in box 1.4 below.

⁵ The government has issued Decree No. 204/2013/ND-CP dated December 5, 2013 providing guidance on budget execution and collection of dividends from enterprises where the state has shareholding.

Box 1.4: Selected issues for revision of the State Budget Law 2002

Medium-term budgeting: The SBL 2002 has no specific provision for the government to present medium-term fiscal projections and assumptions driving these in State Budget documents. This is a standard provision in many countries, which update projections on a rolling basis. A number of practices in Vietnam pose challenges in actually implementing a Medium-Term Fiscal Framework (e.g. separate capital and recurrent budgeting, carry over practices, quality of projections), which the government is trying to address. However, these do not preclude a move towards a rolling MTF, which would help to link medium to long-term plans with decisions on spending and financing.

Budget approval authorities of the National Assembly and the People's Councils: The NA and PCs at local levels have ultimate authority to approve budget appropriations and hold executive bodies to account for budget implementation. Revising certain provisions in the SBL 2002 can help to further strengthen such authority, including for example: seeking approval of the NA or PCs where relevant for any major changes to appropriations, including through spending of over-realized revenue; lengthening the budget preparation calendar to ensure adequate scrutiny and review of budget proposals; improve budget reporting requirements to provide a fuller picture of budget developments to national and local legislature. At the same, provisions on the legislature setting minimum budget allocations to specific sectors should be taken out of the SBL 2002 as this may lead to misallocation of resources.

Transparency of the State Budget: Two important steps that can be taken to improve transparency of and participation in the budget process are disclosure of the draft State Budget submitted to legislative bodies and addition of a provision on Mid-Year Budget updates. These are standard in other countries; they would provide early opportunities for citizens to contribute and ensure greater clarity about in-year budget adjustments. Other issues on transparency include: reform to budget classification and budget tables to disclose important information (e.g. wages and salaries, goods and service, capital spending across functions); provision of breakdown and impact of extra budgetary activities (e.g. Public Finance Funds) in State Budget documents; adopting international standards on reporting on the budget balance. These measures would help to improve budget coverage and comprehensiveness.

Inter-governmental fiscal relations: Local authorities in Vietnam have important fiscal responsibilities. Several provisions in the SBL 2002 are worth revisiting to ensure greater clarity. On expenditure assignments, it is worth spelling the exclusive responsibilities of central government to ensure that these are not shifted to local authorities. On revenue arrangements, the revision should reconsider the sharing principles to ensure objectivity in determining revenue sharing rates between center and province. It could also consider options for more own source revenue for wealthier provinces. On borrowing by local authorities, the current rules and thresholds for limiting debt financing do not link borrowing with fiscal sustainability and therefore should be revisited. Local borrowing should also be part of the local budget balance sheet.

Source: The World Bank, "Review of the State Budget Law 2002," (April 2013)

18. **Public sector debt dynamics, though still sustainable, have deteriorated** on account of projections of slower growth, lower revenue buoyancy, and higher fiscal deficits. Public and publicly guaranteed debt at the end of 2013 was estimated at around 52 percent of GDP and is projected to rise to about 55 percent of GDP in 2014. Overall, public sector debt in Vietnam remains within the applicable thresholds for debt sustainability. However, this is premised on strong reduction in the pace of spending growth. Even a small increase in spending growth will lead to a rapid deterioration in debt dynamics.

19. **At around 11 percent of GDP in 2013, a large part of the government's contingent liabilities comprised its guarantees for external and domestic debt.** The government is monitoring these risks closely particularly because some of the guaranteed firms (mostly SOEs) are operating in sectors facing difficulties (e.g. cement, paper, electricity production); the quality of reporting from guaranteed firms is mixed; longer-term investment

projects are funded by shorter-term loans guaranteed by the government; and several loan guarantees are for social projects, which have longer gestation period. For these reasons, the government is imposing tighter controls on issuance of debt guarantees and has also adopted a Medium-Term Debt Management Program. Aside from explicit liabilities however, the baseline scenario of debt sustainability analysis assumes no realization of other liabilities. Any systemic shock, recapitalization of banks by the government, or acceleration of SOE restructuring – all of which have associated fiscal costs – would contribute to a rise in debt burdens.

1.2.7. Unemployment Remains Low As Does Quality of Labor

20. **The official unemployment rate in Vietnam is very low, at around 2 percent.**⁶ The unemployment rate among the youth (aged 15-24) remains elevated at 6.7 percent, having increased from 5.5 percent in 2012 (figure 1.19). This is a common phenomenon across the world, although the gap between the youth and overall population is somewhat higher in Vietnam than is the norm. Furthermore, the unemployment rate was higher among women and in urban areas and considerably higher among skilled workers. The latter may be reflecting a skills mismatch in the labor market arising from the mentioned issues with the quality of higher education and technical and vocational school system.

Figure 1.18: Share of vulnerable employment in total employment (%)

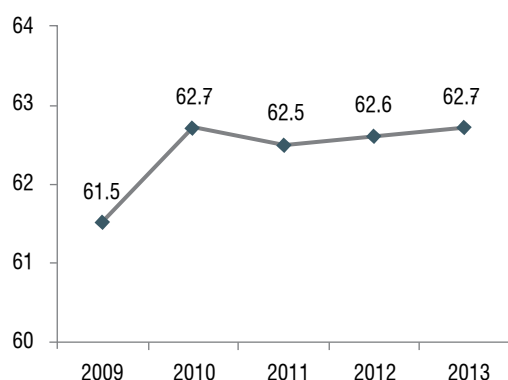
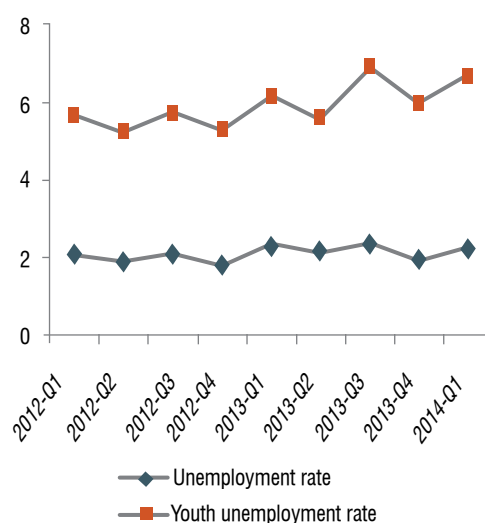


Figure 1.19: Unemployment and youth unemployment rate 2012-14 (%)



Source: GSO (2014)

21. **Labor force participation rate is relatively high in Vietnam.** The labor force participation rate of the population aged 15 years and above was 77.8 percent in the fourth quarter of 2013 (Figure 1.20), higher than the global average of 63.5 percent in 2013 (ILO, Global Employment Trend 2013) as well as the average of 70.4 percent for South East Asia and the Pacific. Labor force participation for females was 73.1 percent in 2013-Q4, significantly lower than the 82.3 percent for men but still relatively strong compared with other developing countries. Labor participation rate of young people aged between 15 and 24 increased considerably from 52.9 percent in 2012 to 58.2 percent in 2014, suggesting that more young people are leaving the education system and seeking employment. This latter trend may require closer attention from policymakers since it could be signaling early school leaving. Employment in the economy has also improved during 2013 (figure 1.21), indicating a healthy pace of job creation.

⁶ As the official unemployment rate only measures officially reported unemployment in the formal sector, it does not fully capture the extent of unemployment in either the informal sector or in the agriculture-based rural areas. It also does not factor in the extent of “underemployment” in the economy.

Figure 1.20: Labor participation rate 2010-2013

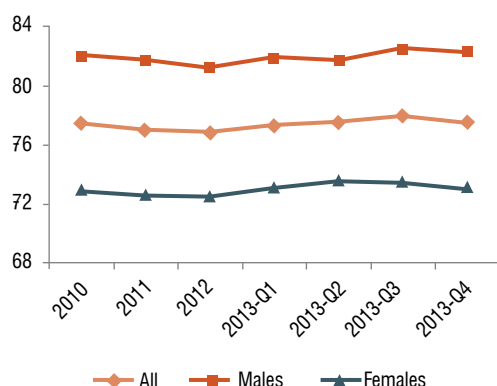
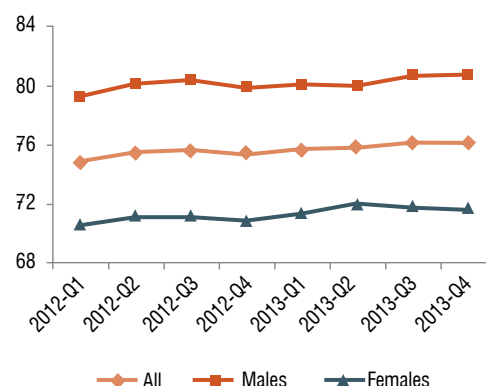


Figure 1.21: Employment-to-population ratio (%)



Source: GSO (2012, 2013).

22. **The quality of the labor force remains a challenge** (table 1.4). In 2013, only 18.2 percent of the labor force was educated with a technical or a college degree. There has been some improvement in recent years in the number of people receiving degrees from vocational training schools and universities. However, worker skills and availability remain more serious concerns for employers than labor market regulations and taxes (World Bank 2013b). Many employers identify hiring new workers as a particularly serious challenge due to inadequate skills, especially among those applying in technical, professional and managerial occupations.

Table 1.4: Professional/technical skills of the labor force (% of total)

	2010	2011	2012	2013
No professional or technical skill	85.3	84.4	83.2	81.8
Vocational training	3.8	4	4.7	5.4
Technical school	3.5	3.7	3.7	3.7
Junior college	1.7	1.8	2.0	2.0
University	5.7	6.1	6.4	7.1

Source: GSO (2014)

23. **In 2013, 62.7 percent of total workers were in the informal sector.** This ratio has remained stable since 2010 (Figure 1.20). Without access to the social security system, these workers (comprising own-account and unpaid family workers) can be considered as “vulnerable”.

24. **An analysis of status in employment by gender shows noticeable differences between men and women.** In 2013, women accounted for 41.1 percent of waged and salaried workers but 64 percent of family unpaid workers, indicating that women do not have as much access to quality work as men. At the same time, salaried employment does not guarantee decent employment. In 2013, 31.4 percent of all salaried employees worked with verbal contract arrangements or no contract at all. The rate is similar among men and women but the proportion of workers having no contract is much higher for women than for men (24.4 percent and 16 percent respectively).

I.3. Structural reform agenda

I.3.1. Banking Sector Reforms Require More Urgent Attention

25. **The banking sector remains sluggish, tenuously stable, and susceptible to systemic risks.** Short-term liquidity pressures have been averted, although without concomitant breakthroughs on resolution of non-performing loans and restructuring measures. Authorities tackled short-run liquidity pressures through administrative measures that ensured continued depositor confidence in the dong. As of May 23, total liquidity in the system increased by 5.3 percent and deposits by 4.2 percent (year-to-date). There have been no significant liquidity shortages in credit institutions, including the ones in the weakest category.

26. **Profitability of the banking sector has been constrained over the past couple of years** with declining lending margins, a significant decline in lending growth and persistence of portfolio quality issues. Policy rates have been reduced over the past couple of years, and lending spreads have narrowed (currently reported to be lower than 2 percent for some banks because of capped deposit and lending rates to priority sectors). Banks are focusing on addressing NPL issues and appear much more cautious in lending practices. Strong growth in bank deposits has continued, but commercial banks are looking for alternative investments (such as low risk government and other bonds) rather than supporting new lending.

27. **Structural reforms in the banking sector have moved at a relatively slow pace.** Implementation of PM Decision 254 (issued in March 2012) over the past couple of years has helped maintain banking sector stability and strengthen oversight. However, the underlying problems of asset quality, capital adequacy and governance are yet to be addressed. At the end of 2013, credit institutions reported an aggregate NPL ratio of 3.79%, while the Banking Supervision Agency of the SBV reported a higher ratio of 5.7 percent (using more conservative risk classification of assets). However, independent analysts believe the aggregate figure could be 3-4 times higher if international accounting and NPL classification standards are applied. In a recent statement, Fitch, a credit rating agency, estimated system-wide NPLs to be four times higher than the reported figure.⁷ Moody's has similarly reported that the NPLs could be at least 15 percent by international accounting standards (IAS/IFRS).⁸ The critical task in an enduring solution is a credible recognition on the level of impaired assets. Circular 02/2013/TT-NHNN on loan classification and provisioning is a step in the right direction, but the enforcement of the full Circular has been delayed till April 01, 2015. Further, a uniform asset classification for credit institutions has been delayed to year-end 2014.

28. **To address the problem of NPLs the government has adopted a multi-pronged policy framework (PM Decision 843).** Decision 843 assigns the SBV the overall responsibility of coordinating system wide NPL resolution and monitoring compliance of banks and their Asset Management Companies with NPL resolution plans and targets. A major element of Decision 843 is the establishment of the Vietnam Asset Management Company (VAMC), with the objective of restructuring bad debts and stimulating credit growth. The VAMC thus far has taken over VND45.3 trillion worth of bad debts (against an overall target of VND70-100 trillion) since its establishment in June 2013, although it is yet to develop a clear strategy to resolve these assets. Furthermore, the existing SBV regulation (including those relating to VAMC) and the corporate restructuring framework need upgrading for NPL resolution to be completed effectively. The approval of the revised Law on Bankruptcy in June 2014 is a positive step and strengthens the insolvency regime while facilitating corporate restructuring.

29. **SBV continues to encourage mergers of banks (even directing merger of some of the weaker banks) and capping lending growth of banks based on SBV financial strength classification/rating.** However, there is concern that forced mergers of weak banks might end up creating greater systemic risk if tight supervision and corrective actions are not conducted in a timely manner. The SBV has targeted 6-7 M&As in the banking sector in 2014, making a total of 9-10 M&As so that in the next 3 years the number of commercial banks could be reduced by half from current number (i.e. there will be only 14-17 commercial banks in the system).

⁷ Fitch Ratings: Vietnam Full Rating Report. January 27, 2014.

⁸ Moody's Investor Service: Banking System Outlook for Vietnam. February 18, 2014.

30. **The government is looking to further enhance foreign participation in domestic banks** as a way to meet the recapitalization needs of the banking sector and introduce new products and services. Decree No. 01/2014 issued on January 3, 2014 revised the maximum ownership for organizational and strategic investors to 15 percent and 20 percent of the chartered capital in a credit institution respectively. Though the cap for total foreign holdings remains unchanged at 30 percent (consistent with Vietnam's WTO commitments), Decree 01 does allow higher ownership in special cases (e.g. restructuring of weak banks) subject to Prime Ministerial approval.

1.3.2. Pace of State Owned Enterprise Reforms Picks Up

31. **Recent official reports show generally improved performance of SOEs.** A recent report prepared by the State Audit of Vietnam for the National Assembly shows that 26 out of 27 audited General Corporations and State Economic Groups were profitable in 2013. But the level of reported profits was modest; with Return on Equity at 8.7 percent, a 3.6 percent return on asset.⁹

Table 1.5: SOE reform and performance over 2011-13

	Results
Number of SOEs equitized	99
<i>Of which: General corporations (GCs)</i>	19
Number re-organized	81
Remaining number of 100% SOEs	949
Divestment (% change in investment in non-core businesses)	- 19%
Share of value of sold equity in assets (2012)	0.8%
Debt/equity ratio (2012)	1.39
Return on equity (ROE, 2013)	8.7%

Source: NSCERD Report on SOE reform 2011-13

32. **The pace of SOE reforms appears to have picked up in recent months. A conference on SOEs was held at the end of February under the chairmanship of Prime Minister Nguyen Tan Dung.** The conference took stock of the reform progress and sought measures to accelerate it further. An important outcome of the conference was the issuance of Resolution 15 in March 2014 containing a comprehensive action plan for stepping up divestment of SOEs. The pace of SOE equitization has also picked up since early 2013. In 2013, the government equitized 74 SOEs (thrice the number in 2011 and 2012), including 12 General Corporations. The momentum continued in the first quarter of 2014 with initial public offerings for 25 SOEs, including 13 General Corporations.¹⁰ However, the equitization process thus far has mostly focused on small SOEs, and only a small share of equitized assets of General Corporations has been actually been transferred to non-state shareholders. Moreover, the IPOs in Q1/2014 could only sell 30 percent of the planned 355 million shares. Successful completion of the equitization target of more than 400 SOEs by end-2015 seems unlikely at this point. It may be more effective in any case to set more realistic targets and focus more on the quality of the equitization process – for instance by concentrating on successful divestment of SOEs that are more attractive to investors.

⁹ The assessment is based on Vietnam's own accounting standards though, and no information is available on provisioning of investment in "risky non-core activities".

¹⁰ POs for several seaport management SOEs, including the Nha Trang, Quang Ninh, and Hai Phong ports, took place in April and May 2014.

33. **The planned divestment of SOEs from 5 non-core “risky areas” shows a good start.** Decree 71 requires all non-banking SOEs to fully divest from 5 risky areas, including banking, insurance, securities and real estate by 2015. As of end-2013, about 19 percent of the total SOE investment in non-core activities, reported at VND 22 trillion or 2.1 percent of total equity, had been divested. However, divestment mostly took place within the state sector, with less than 1 percent sold to private investors. Not allowing enterprises to divest below book values is clearly an important factor, though recent modification in the regulatory framework to allow for sale at market prices is a step in the right direction. Future progress will also depend on tightening information disclosure, performance monitoring, and corporate governance in the SOE sector, strengthening transparency of the divestment process and streamlining lines of accountability of the responsible Ministries.

34. **Legal reform continues to dominate the SOE reform agenda.** A total of 26 Decrees, 11 Decisions and Directives related to SOE reform were issued from 2011 to 2013. Key documents issued in 2013 include Decree 61/2013 on information disclosure and financial performance monitoring, Decree 204/2013 on dividend policy until 2015, and Decree 206/2013 on SOE debt management. The legal reform process has continued in 2014. Decree 19/2014 was issued in March 2014, establishing the detailed sample Charter for single-member Ltd. SOEs. Decree 49/2014 was issued at the end of May 2014 to regulate the inspection and oversight of the implementation of decisions made by the owners. Two SOE-related laws, the Law on Management of State Capital Invested in Enterprises (Box 1.5) and the Enterprise Law, were reviewed by the National Assembly in May 2014 and are expected to be approved at the end of 2014.

Box 1.5: Law on Investment and Management of State Capital in Enterprises (LIMSCE)

This Law is drafted in the context where Vietnam has prioritized SOE reform as one of the three main pillars of its economic restructuring program. The policy orientation of SOE restructuring has also been clearly defined¹¹. Accordingly, the areas of State equity investment and SOE operation will basically be restricted; and SOEs will operate under market principles in line with applicable provisions of the Enterprise Law. The general framework for SOE restructuring therefore includes most of the critical areas in need of reform, such as: ownership structure (reclassification of SOEs based on their share of state ownership); divestment from non-core businesses using market mechanisms; strengthening corporate governance; comprehensive restructuring of state economic groups (EGs) and general corporations (GCs); initial restructuring priority to SOEs in selected areas (commerce, construction, lottery, telecom, water supply, urban sanitation, irrigation, maintenance of roads and railways); and further improvements in the legal framework within which SOEs are governed and operate. The Law was tabled for discussion at the National Assembly during its May–June 2014 sitting, with expected approval in November 2014.

The Law is expected to, among others: improve the focus, transparency, and accountability in the investment and management of state capital in enterprises, and the level of oversight of SOEs performance by the National Assembly and other stakeholders. The Law is designed to regulate both the investment in, and the management of, the state’s capital in enterprises. The version presented to the National Assembly has 7 Chapters and 63 Articles, consisting of provisions on objectives, principles, and forms of state equity investment; management of state capital and assets in enterprises and capital restructuring; rights and responsibility of representatives of state ownership in enterprises; oversight of state capital investment and management activities; and performance evaluation, reporting, and public disclosure.

¹¹ The main policy orientation was set out in Conclusion Note No. 50 (2012) of the Party Executive Commission; Decision No. 929 (2012) of the Prime Minister; and Resolution No. 15 (2014) of the Government; and many other regulations and directives.

I.3.3. Law on Public Investment Promises to Address Important Inefficiencies

35. **An important recent step to correct the recurring challenge of inefficiencies in public investment has been in the form of Law on Public Investment, which was adopted by the 7th National Assembly plenary session in June 2014.** The law, which will be effective on January 1, 2015, seeks to establish a complete framework for the government's investment management – investment in SOEs is subject to the law on investment and management of state capital in enterprises. The procedures for selecting and approving project types are clearly stipulated in the law, including public-private projects. The law imposes greater discipline on capital spending. The law also helps reduce fragmentation throughout the investment cycle from project selection, appraisal, budgeting, implementation and adjustment and monitoring and evaluation. Another of its breakthrough provisions is the move from annual planning to medium-term 5-year planning of the capital budget, aligning with the 5-year national Socio-Economic Development Plan. In addition, the law stipulates the mechanism for monitoring and inspection of investment plans and programs. Lastly, the law provides increased transparency of the public investment process by encouraging participation of the public in the selection of nationally important projects or projects classified in group A.¹²

I.4. Medium-Term Outlook: Continued Prospects of Moderate Growth and Downside Risks

36. **Economic growth is projected to remain flat at 5.4 percent in 2014, before a slight uptick in 2015 and a more pronounced improvement in 2016 (Table 1.6).** This performance is below Vietnam's long-term growth potential, and is largely on account of the subdued domestic demand. Reversing the deterioration in domestic confidence will require swift government action on restoring the health of the banking sector to improve access to credit, leveling the playing field for private investors vis-à-vis the SOEs, and easing the regulatory burden, while continuing to consolidate macroeconomic stability. The economic impact of the tensions with China in the East Sea has been contained by swift government action (box 1.6). The improved global prospects are expected to lessen the demand slack in Vietnam. The trade and current accounts are expected to remain in surplus in 2014 though by a smaller amount than in 2013. Inflation is likely to stay within the government target of 7 percent in 2014 due to modest credit growth and assuming that no major supply-side shocks.

37. **Vietnam's gains on the macroeconomic front face several downside risks:** (i) Private sector demand remains sluggish and susceptible to further negative news; (ii) The baseline assumes no escalation in the tensions with China. If the situation were to escalate, international investment, which has been a critical pillar of growth, is likely to be deterred; (iii) With elevated NPL ratios and balance sheet positions intertwined with the SOE sector, the banking sector remains susceptible to sudden shifts in depositor confidence and unexpected news on SOE profits or real estate price movements.

¹² Criteria for projects in group A: national defense and security projects; projects with capital budget of VND 2,300 billion in transportation, VND 1,500 billion in irrigation and water supply, VND 1,000 billion in agricultural production, VND 800 billion in education, health, and others.

Table 1.6: Key short-term economic indicators

	2011	2012	2013e	2014f	2015f
Real GDP (% change, y-y %)	6.2	5.3	5.4	5.4	5.5
Consumer price index (% annual average)	18.6	9.1	6.6	6.0	6.2
Current account balance (% GDP)	0.2	6.0	5.6	4.1	3.3
Fiscal balance (% GDP, GFS definition)	-1.1	-4.8	-5.6	-6.6	-5.9
Public debt (% GDP)	46.7	48.5	51.6	54.8	57.1

Source: Government of Vietnam, IMF and WB forecasts

Box 1.6: East Sea Tension and Possible Impact on Vietnamese Economy

Tensions have flared up between Vietnam and China since early May 2014, after China placed an oil rig about 120 nautical miles from Vietnam's shore, in waters near the Paracel Islands in the East (South China) Sea. In Vietnam, these tensions took an ugly turn after mobs – ostensibly protesting the Chinese action – turned on foreign-owned factories across the country; many of the affected factories were owned by non-Chinese nationals.

Fortunately, the government has only not quelled the violence but has also announced a series of measures to mitigate the economic and reputational loss from the situation. If the situation does not re-escalate, the impact on investment inflows and Vietnam's growth prospects can still be kept to a minimal level. On the flip side, re-escalation could cost Vietnam deeply in economic terms, given the growing importance of China as a trading partner and an investor to Vietnam. China is now Vietnam's largest bilateral trading partner, accounting for 19 percent of its total trade turnover (export + imports). Moreover, imports from China are critical inputs for Vietnamese manufacturing exports, highlighting risks to the Vietnamese supply chain. China has also become the largest single market for Vietnamese rice during the last couple of years. Moreover, Chinese FDI to Vietnam has risen sharply: by the end of April 2014, total committed Chinese FDI was estimated at around US\$7.8 billion. Chinese companies are main contractor in the form of EPC (Engineering, Procurement, and Construction) of major projects in power sector of Vietnam. Chinese contractors are also heavily involved in civil works in several important highways.



SECTION II: SPECIAL FOCUS ON INEQUALITY

II.1. Introduction

38. **Inequality has become a topic of public concern in Vietnam and around the world.** Social movements linked to concerns about inequality have unfolded in the wake of the 2008 global financial crisis, and perceptions of rising inequality were among the drivers of the Arab Spring revolutions of 2011. In Vietnam, expressions of concern about inequality can be found in the press, on blogs, and in qualitative research studies. Vietnamese citizens are concerned about inequality, and many have the sense that inequality is rising. Two examples from a focus group study are as follows:

“The rich and poor are increasingly getting distant from each other. I have the feeling that the poor have been marginalized. With money, they can invest in the best possible schooling for their children while our children lag behind forever. As a saying goes, a son of the king will end up a king while a child of a lay woman who takes care of a Buddhist temple will end up sweeping the fallen banyan tree leaves.” –Low-income person, Ho Chi Minh City.

“There are types of illegitimate richness, and we do not accept these types, we see them as being an injustice.”
– Young person, Chieng Khoa commune, Son La province.¹³

¹³ These quotations are from a qualitative study described in World Bank (2012a) and from a qualitative survey of perceptions funded by Oxfam, described in Box 2.1.

39. **This special focus examines how inequality has changed over time and explores the views of Vietnamese citizens regarding inequality.** It begins by considering why inequality may be a concern. Next it examines the known facts of inequality in Vietnam and trends over time, assessing the limitations in what is known. Finally, results from a new perceptions survey are used to study what Vietnamese people think about inequality.

40. **A key finding is that in contrast to other fast growing countries in Asia, Vietnam has achieved rapid growth with only modest increases in income inequality.** Mean income of the bottom 40 percent of the population grew at 9 percent annually over the 2 decades up to 2012, a tremendous example of shared prosperity. Nonetheless, substantial inequality of opportunity remains. Children from poor households are far less likely to attend secondary school and much more likely to be malnourished.

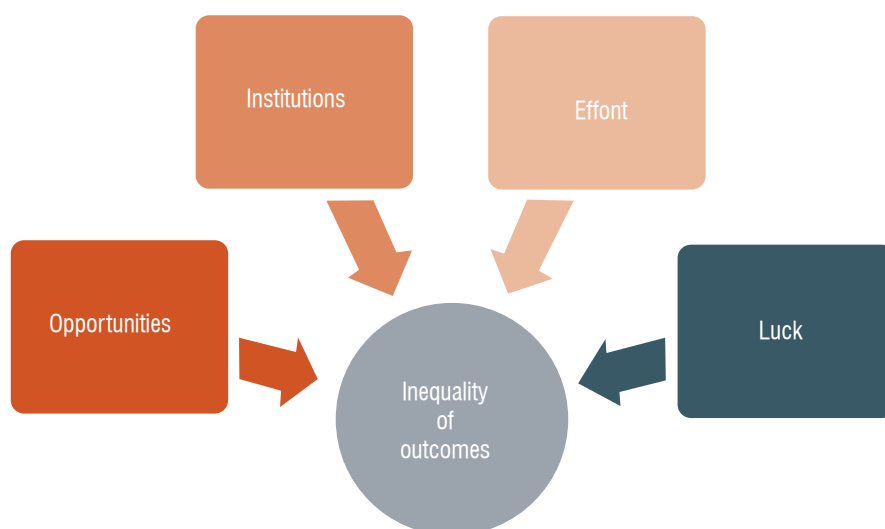
41. **Although inequality has risen only modestly, popular concern about inequality and demand for policy responses is likely to grow over time as more Vietnamese move to cities and are exposed to visible differences in welfare.** Perceptions about inequality matter, because the potential “costs” of inequality, including a decline in social cohesion and trust, are driven largely by perceptions. There is already substantial demand for redistributive social policy to narrow inequalities in Vietnam; this demand is likely to persist and to rise as Vietnam continues to urbanize.

II. 2. Why Inequality Matters

42. **Inequality means differences in well-being between individuals.** A helpful framework for thinking about the many interlinked forms of inequality starts with a consideration of *inequality of outcomes*. While outcomes include many different forms of well-being, this discussion focuses on income and consumption, which are closely linked to individual and household welfare and living standards.

43. **Inequality of outcomes is the result of interaction between inequality of opportunities, societal institutions, effort, and luck.** *Opportunities* are individual circumstances at birth outside our control that influence outcomes. Examples include gender, ethnic group, place of birth, and the income or education levels of parents. *Institutions* refer to the economic and political rules and organization of a society. *Effort* refers to action on the part of an individual. Finally, *luck* also plays a substantial part in determining outcomes for individuals and the overall inequality of outcomes. Figure 2.1 presents a schematic conceptualization of these factors.

Figure 2.1: A Framework for Understanding Inequality of Outcomes



44. **This study focuses on inequality of outcomes and measurable inequality in access to education and health opportunities.** Underlying the changes in inequality over time is the massive transformation in Vietnam's institutions that has taken place since the start of Đổi Mới in 1986. The perceived role of effort and luck feature in the discussion of inequality perceptions.

45. **While inequality has many possible negative effects, some inequality of outcomes is desirable and inevitable in a dynamic economy.** The same institutions that give rise to inequality, namely economic and social freedom, can also be valued in their own right as well as in their capacity to generate growth and prosperity. Vietnam's move away from collectivism and towards a market economy has created incentives which allow talented, entrepreneurial, and hard-working individuals to flourish but also inevitably lead to some inequality.

Inequality of outcomes may be a concern for several reasons:

- **Welfare:** People may simply prefer to live in a more equal society. This desire may come from intrinsic human preference for equality and fairness, entrenched social norms and cultural beliefs about fairness in society.¹⁴
- **Social cohesion and trust:** Inequality can undermine social and political cohesion – the capacity of a society to make its collective decisions in a peaceful setting.¹⁵ Those suffering from extreme deprivation may turn to violence and conflict as the last resort to address their concerns. A recent study of inequality in Egypt suggests that limited social mobility, coupled with high perceived inequality and an increasing intolerance to inequalities, contributed to unrest in 2011.¹⁶ In South Africa, higher levels of local inequality have been associated with higher levels of crime.¹⁷
- **Provision of public services:** Inequality may also damage trust and can hurt cooperative problem-solving efforts, particularly in the management of common resources and in the provision of public services.
- **Motivation and aspirations:** If a poor individual is surrounded by many poor people and few who are better off, the person may suffer from an “aspirations gap” where she is too far from what she hopes to obtain to plausibly obtain it. Through this channel inequality may affect motivation and choices.¹⁸
- **Access to capital:** Inequality may reduce economic growth if the poor are unable to borrow to invest in education and other forms of productive capital.¹⁹ Furthermore, it may lower the level of poverty reduction that growth can deliver.

46. **Perceptions of inequality are important because the potential negative impacts of inequality are driven more by perceptions than reality.** With the exception of access to capital, all of the channels listed above operate through perceptions. The main determining factor in many models relating inequality to development and policy outcomes is not the *actual* shape of the income distribution, but instead how it is seen by citizens. Perceptions and attitudes towards inequality are shaped by many other factors—including life experience, parents' beliefs, and temperament—that go beyond the facts of inequality.

¹⁴ Yitzhaki 1979; Verme 2011, Fehr and Schmidt 2006.

¹⁵ Alesina and Perotti, 1996.

¹⁶ Verme et al. 2014

¹⁷ Demombynes and Ozler, 2004.

¹⁸ Genicot and Ray 2014, Appadurai 2004

¹⁹ Galor and Zeira 1993, Banerjee and Newman 1993.

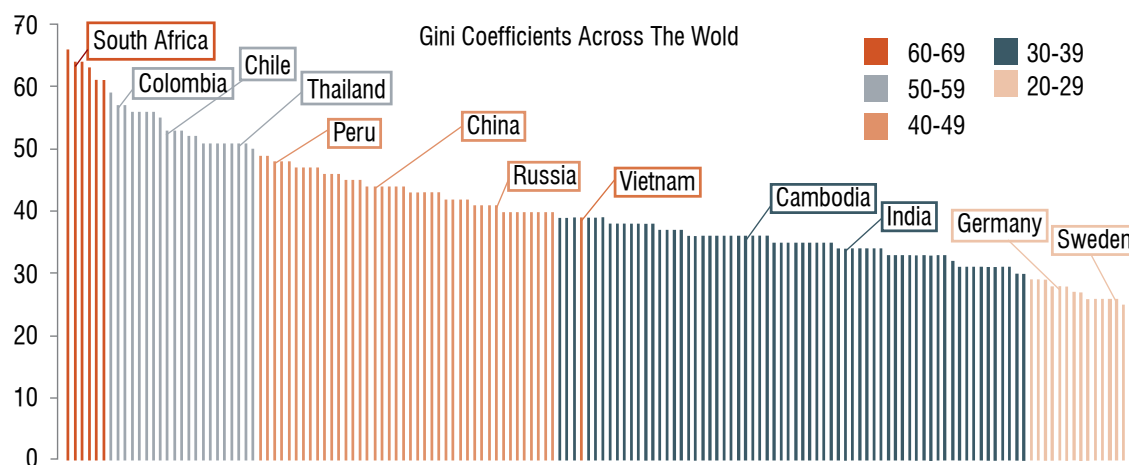
II.3. The Facts on Inequality in Vietnam

47. **This section describes levels and trends of inequality in Vietnam.** The discussion highlights changes in inequality over time, geographic variation in living standards, and gaps between the majority and ethnic minorities, before turning to inequality of *opportunities*, principally education and health.

III.3.1. Inequality of Outcomes: Income and Consumption

48. **Inequality in Vietnam is neither particularly high nor low compared to other countries,** measured using the widely-used Gini coefficient. In 2012, Vietnam's income Gini coefficient was 39.4, placing it in the middle of the global Gini distribution (Figure 2.2). By this measure, inequality in Vietnam is substantially lower than in other fast growing economies in East and South East Asia, including China, Indonesia and Thailand but higher than in Cambodia and India.

Figure 2.2: Approximately half of countries have Gini coefficients lower than those found in Vietnam



Source: World Development Indicators and analysis of 2012 VHLSS. Note: Using consumption rather than income to evaluate Vietnam's inequality, Vietnam ranks lower: roughly a third of countries have Gini coefficients lower than Vietnam's using this metric.

49. **Long-term growth in Vietnam has been fairly equitable, and the country has consistently achieved “shared prosperity” since the early 1990s.** Inequality measured using the Gini rose modestly from the early 1990s through 2004 and then stabilized before dropping slightly in the most recent data (Figure 2.3). The World Bank has used the growth rate of the mean income of the bottom 40 percent as a measure of shared prosperity. By this metric, Vietnam has done extremely well: between 1993 and 2012: incomes of the bottom 40 grew at an annual rate of 8.9 percent, exceeding the 7 percent growth rate of the top 60 percent (Figure 2.4).

Figure 2.3: There has been a slight rise in inequality over time

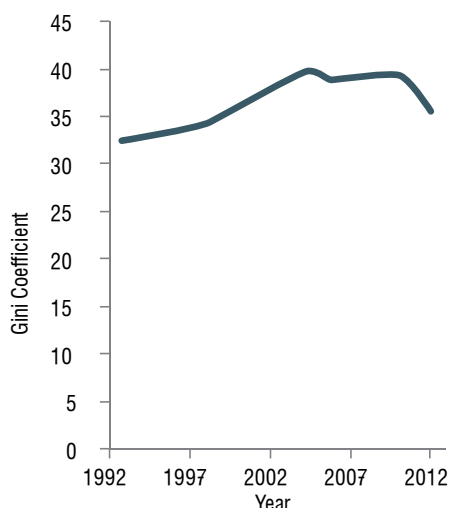
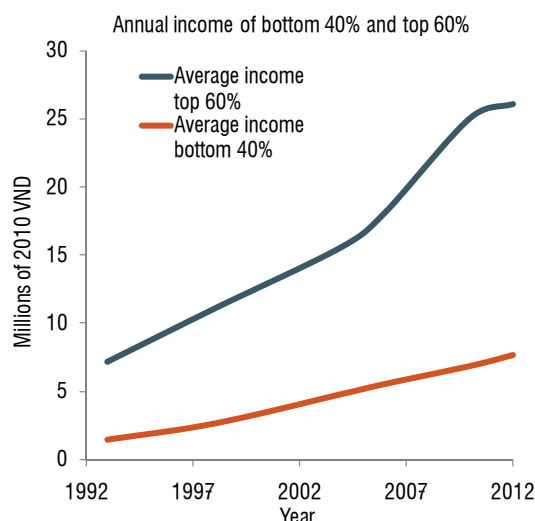


Figure 2.4: Strong long-term income growth among the bottom 40 percent



Source: World Bank Staff analysis using Vietnam Households Living Standards Survey. Figure 2.3 shows the expenditure Gini.

50. **The modest increases in inequality during the 1990s reflect the role of agriculture during the period.** Growth in the 1990s was in large part driven by increased agricultural productivity, following the decollectivization of agriculture. In an overwhelmingly rural population, this increased inequality, as some households experienced greater gains than others.

51. **Since 2000, measured inequality has not risen substantially, despite the movement of many Vietnamese from agriculture into higher productivity sectors, for several reasons.** First, growth has continued in agriculture, though at a more modest rate than in the 1990s, tempering what would otherwise be a tendency for inequality to increase. Second, growth has been geographically broad-based and not limited to Hanoi and Ho Chi Minh City, with incomes also rising in rural areas and smaller cities and towns. Third, the movement of unskilled workers to manufacturing jobs has boosted the middle of the income distribution rather than the top end, and thus overall reduced inequality. Fourth, remittances sent by urban workers to their origins have reduced the tendency for growing wage employment to increase inequality.²⁰

52. **In the last two decades, inequality has risen less in Vietnam than in other fast growing economies in Asia.** Vietnam's trajectory, with only a modest increase in inequality, is similar to that of Taiwan and South Korea during the early stages of their development.²¹ In contrast, income inequality in China has steadily risen since the onset of economic reforms in the 1980s and has remained stubbornly high in recent years. China's Gini coefficient of income inequality rose from about 0.30 in the early 1980s to 0.47 in 2012.²²

53. **More complex distributional changes have taken place that are not well-captured by the Gini.** As Figure 2.5 shows, over the period 2004-2012, poorer households saw their incomes rise substantially but at a slower rate than the average. The fastest income growth was experienced by Vietnam's "middle"—those in the 30th to 80th percentile. These households reside in both rural and urban areas across all regions of the country.

²⁰ Badiani-Magnusson and Brandt 2014, Thu and Booth 2013

²¹ Whyte 2014a

²² The Economist, January 26, 2013

Households in the top 20 percent, although registering lower growth rates than the median or average household, had the largest absolute gains in living standards between 2004 and 2012 (Figure 2.6).

Figure 2.5: Those in the middle—neither rich nor poor--experienced the fastest relative income growth of all groups 2004-2012

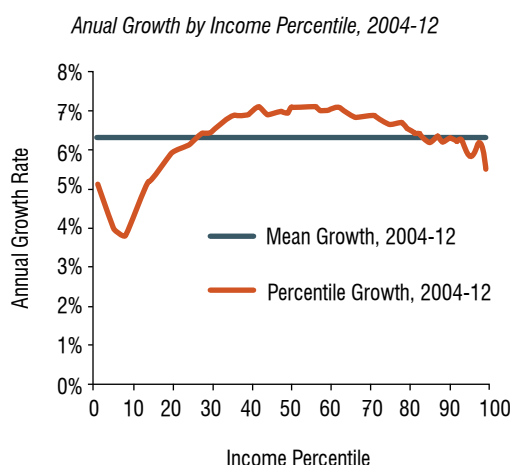
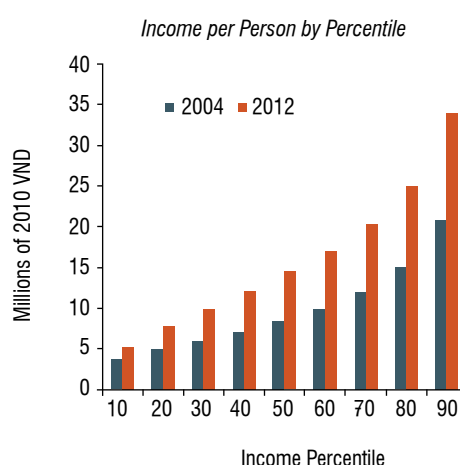


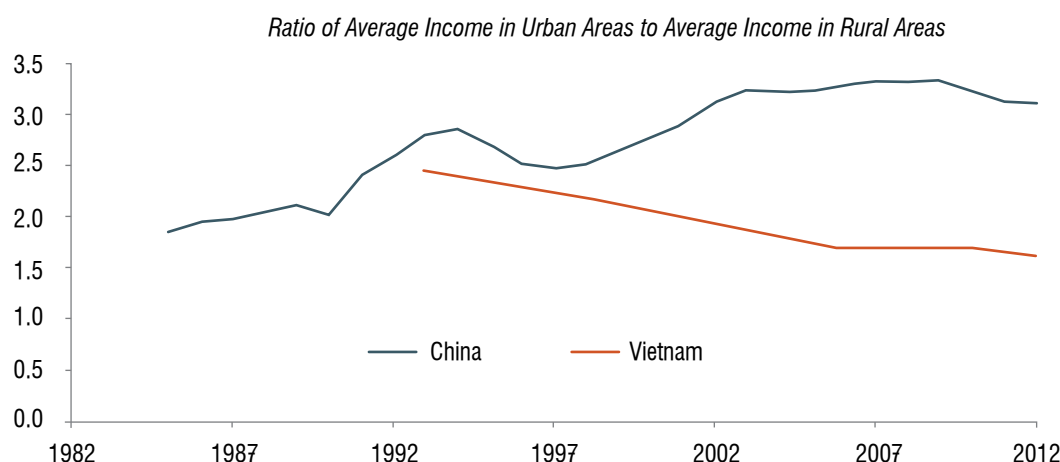
Figure 2.6: In absolute terms, the top 20 percent have seen the greatest increase in incomes



Source: World Bank Staff Estimates using the Vietnam Household Living Standards Survey (VHLSS) 2004 and 2012.

54. **Incomes differences between urban and rural areas have declined over time.** In 2012, urban incomes were nearly 60 percent higher than rural incomes. The ratio of urban to rural incomes in Vietnam in 2012 is similar to those found in Indonesia, Malaysia and India, where the ratio is less than 2, and significantly less than in either Thailand or the Philippines where the ratio is 2.2.²³ In China, in contrast, the urban-rural ratio is significantly higher than in Vietnam, having risen substantially over time (Figure 2.7).

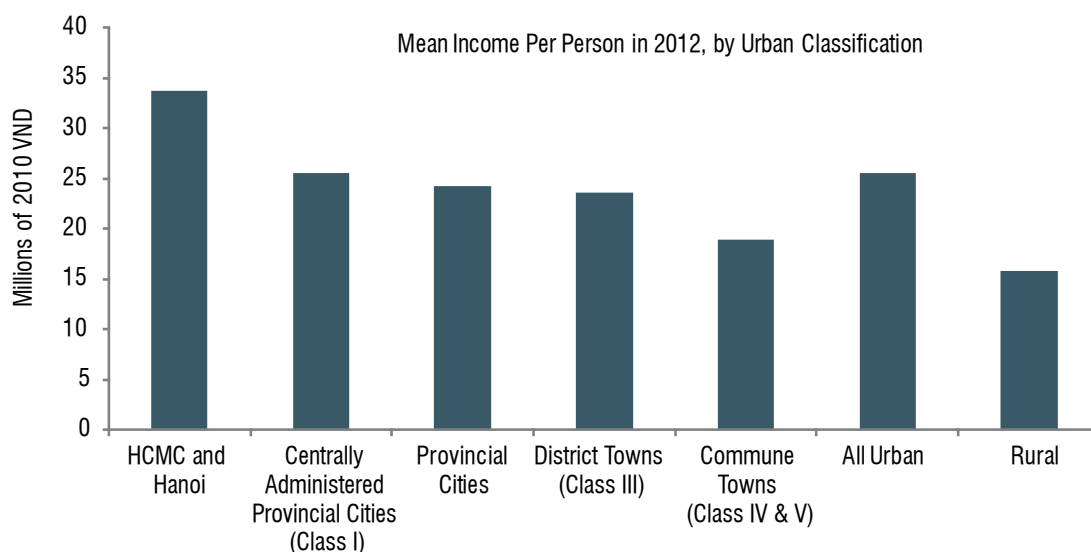
Figure 2.7: Rural-urban disparities have closed over time in Vietnam, in contrast to China where they have widened



²³ ADB, 2012

55. **The average urban-rural gap masks differences by type of urban settlement.** Incomes in Hanoi and Ho Chi Minh City are nearly double those in rural areas, after taking account of differences in living costs.²⁴ Differences in incomes across urban settlements reflect differences in activities across urban areas: in small commune towns, 50 percent of households still earn income from lower-productivity agriculture.

Figure 2.8: Average incomes in Hanoi and Ho Chi Minh city are approximately double average incomes in commune towns and rural areas



Source: World Bank Staff Estimates using 2012 Vietnam Household Living Standards Survey. All figures are adjusted to account for spatial price variation.

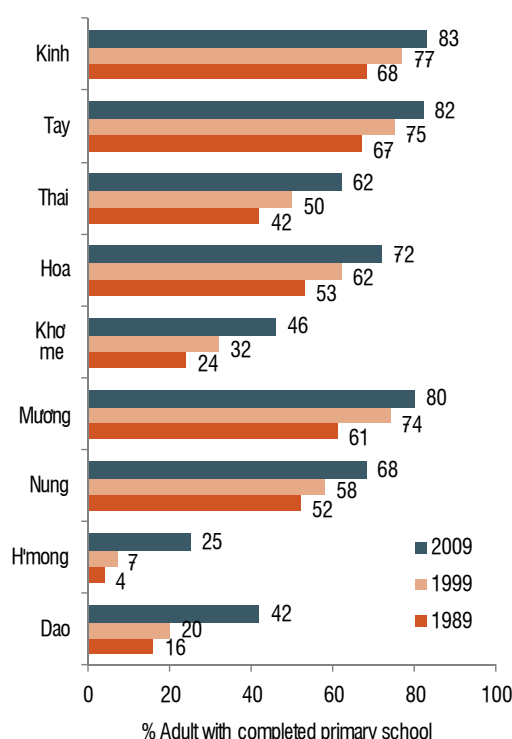
56. **Substantial differences in economic conditions across Vietnam remain.** Poverty is concentrated in the North West and North East, in the border areas of the North Central and South Central Coast and in parts of the Central Highlands. The concentrations of poverty in Vietnam can partly be attributed to differences in agro-climatic and geological features, which affect the type of agricultural activity possible and yields in these activities. They also reflect differences in transport links and access to markets, which affect both the presence and growth of non-agricultural activity and transportation possibilities in agriculture.

²⁴ Vietnam's urban classification system divides urban areas into a hierarchy based on different levels of economic development and population density (World Bank 2011b). Hanoi and Ho Chi Minh cities are "special" cities, reflecting their strategic economic and political importance. Class I cities are centrally administered cities with a large population or the most populous provincial cities. Class II cities are typically less populated provincial cities. Smaller provincial cities or large district towns typically fall into the Class III category. Finally Class IV and Class V cities typically cover commune towns and smaller district towns.

57. **An important aspect of inequality in Vietnam is the divide between ethnic minorities and the rest of the population.** Members of ethnic minority groups make up 15 percent of the country's population but account for 70 percent of the extreme poor measured using a national extreme poverty line. The poorest areas in Vietnam have a substantial ethnic minority presence. Factors identified as playing a role in persistent ethnic minority poverty include the following:

- Social exclusion, culture, and language
- Geographical isolation and limited market access
- Limited access to quality land
- Low rates of out-migration
- Low levels of education

Figure 2.9: Primary Completion Rates by Year and Ethnic Group



58. **Poverty and other socioeconomic conditions also vary greatly across country's 54 ethnic groups, which are highly diverse in their circumstances.**²⁵

For example, primary school completion rates among adults were approximately 80 percent for the Kinh, Tay, and Muong in 2009. In contrast, they were just 42 percent for the Dao and 25 percent for the H'mong (see Figure 2.9). This variation largely reflects differences that have been generated over generations and decades. The ranking of individual groups in the 1989 census is similar to that in 2009. This is despite the fact that, across all groups, there has been notable improvement over time. The persistence of the gap between ethnic minorities and the majority mirrors findings from across countries that inequality tends to persist across generations.²⁶

²⁵ First, the ethnic groups are diverse in size. There are 5 groups with populations over 1 million (Tay, Thai, Muon, Khmer, and H'mong.) There are 3 groups with populations between 500,000 and 1 million (Nung, Dao, Hoa), and there are several groups with populations of less than 5000. They are also in diverse locations. Many groups are found chiefly in the Northern Mountains, others are in the Central Highlands, and some are in the Mekong Delta.

²⁶ This is in part because children in these communities face inequality of opportunities. Their parents have lower levels of education, they are born into more isolated communities with more limited access to upper-secondary education and hospitals, and they tend to be poorer and to receive inferior nourishment and stimulation during their early days. The transmission of poverty across generations may start from an early age through a greater incidence of malnourishment and stunting, which affects cognitive and physical development, and continue into young adulthood through education and income generation choices.

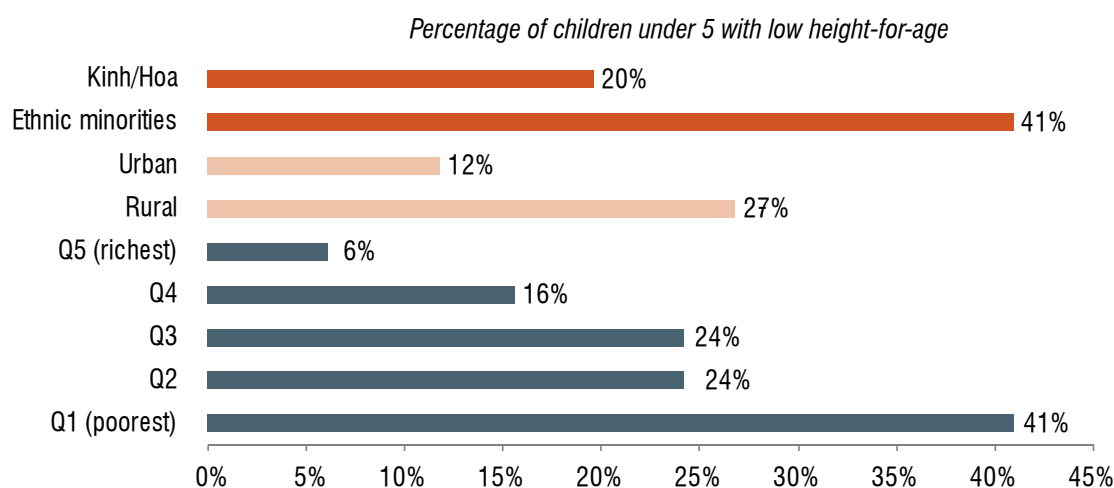
II.3.2 Inequality of Opportunity

59. **The circumstances a child is born into affect her chances of success in life.** The Human Opportunity Index (HOI) captures inequality of opportunity by examining the extent to which children's circumstances at birth affect the likelihood of their access to basic building blocks of human capital, such as education and health services.²⁷ HOI analysis for Vietnam shows that inequality of opportunity in education and health is attributable to four key factors: household resources (expenditures), parents' education, ethnicity, and location (VASS, 2012).

60. **Differences in inequality of opportunity by gender remain but have declined significantly over time.** The gender gap in primary schooling has been eliminated, and women have caught up and even surpassed men in terms of attaining college degrees, except in certain ethnic minority groups. The gap in labor force participation and earnings has narrowed considerably: women's wages are now about 75 percent of men's, a smaller disparity than in many other East Asian countries.²⁸

61. **Chronic malnutrition is a key source of early disadvantage for poor children in Vietnam.** There is widespread international evidence that child malnutrition has substantial negative effects on a child's brain development and future performance in school.²⁹ While Vietnam has made considerable progress in improving child nutrition, almost a quarter of children below the age of 5 remain stunted, i.e. they are short for their age as a result of chronic malnutrition. Rates of stunting are considerably higher among ethnic minority children, children from poor households, children living in rural areas and children born to mothers without any formal education.³⁰

Figure 2.10: A large share of Vietnamese children below the age of 5 are stunted



Source: World Bank 2013b

²⁷ Paes de Barros et al. 2009

²⁸ World Bank 2011a

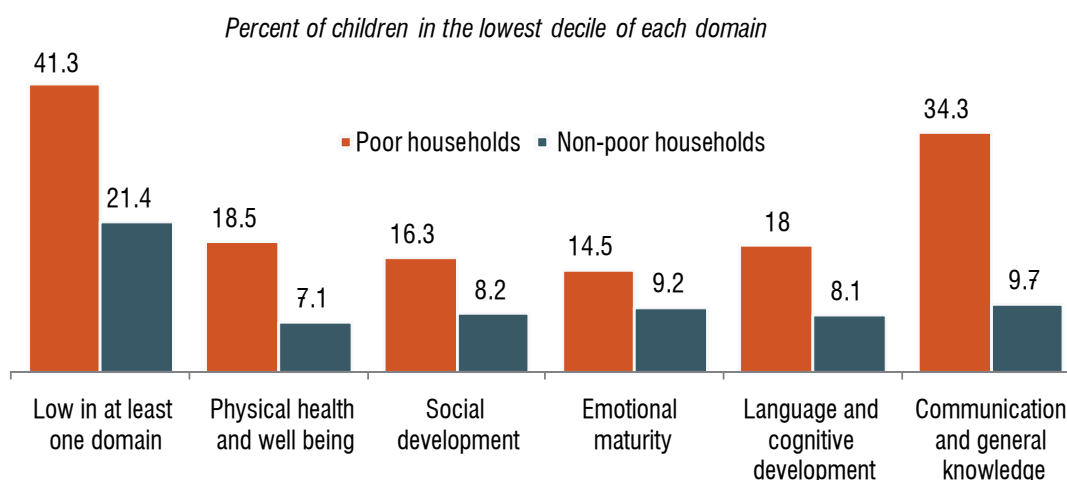
²⁹ World Bank, 2013b

³⁰ World Bank, 2013b

62. **As is the case in developing countries around the world, poorer households in Vietnam also have more limited access to health care.** Access to health care and the type of service received varies substantially across socio-economic groups in Vietnam. Despite progress towards achieving universal health insurance coverage, approximately 34 million people are not covered by any type of health insurance, most of whom are concentrated among the near poor, farmers, dependents of workers, workers in cooperatives and workers in non-state enterprises.³¹ There is still a broad swath of the population at risk of financial hardship due to out-of-pocket health expenditures.³² Moreover, richer households receive higher quality health care than poorer households. Households in the bottom 20 percent are four times more likely to visit commune health centers for outpatient care than households in the richest 20 percent. Richer households are more likely to visit hospitals, where the quality of care and availability of drugs is higher.

63. **Inequality in learning is already established before children start school and can be linked to family circumstances.** In 2012, the Ministry of Education and Training assessed school readiness among 5 year-old children in public preschools. The survey measured the development of children across 5 domains: physical health and well-being; social knowledge and competence; emotional health/maturity; language and cognitive development; and general knowledge and communication skills. Children who scored in the lowest decile in one or more of the domains were considered “vulnerable” in terms of school readiness. Figure 2.11 presents the percent of children in the bottom ten percent among Vietnamese 5 year-olds by poverty status. Children from poor households in Vietnam are more likely to be vulnerable in each of the five developmental domains. Over four out of ten children from households in the bottom income quintile are vulnerable in at least one domain, which is double the rate for children in the top quintile.

Figure 2.11: Children from low income backgrounds are more vulnerable in terms of school readiness



Source: World Bank 2013b

64. **Inequalities in education access continue to exist at the lower- and upper-secondary level.** Between 1998 and 2012, differences in enrolments at the primary and secondary level narrowed across the rich and the poor and in rural and urban areas (figure 2.12). At the primary level, educational enrolment is close to universal across richer and poorer households. Despite the significant progress, educational investment continues to be

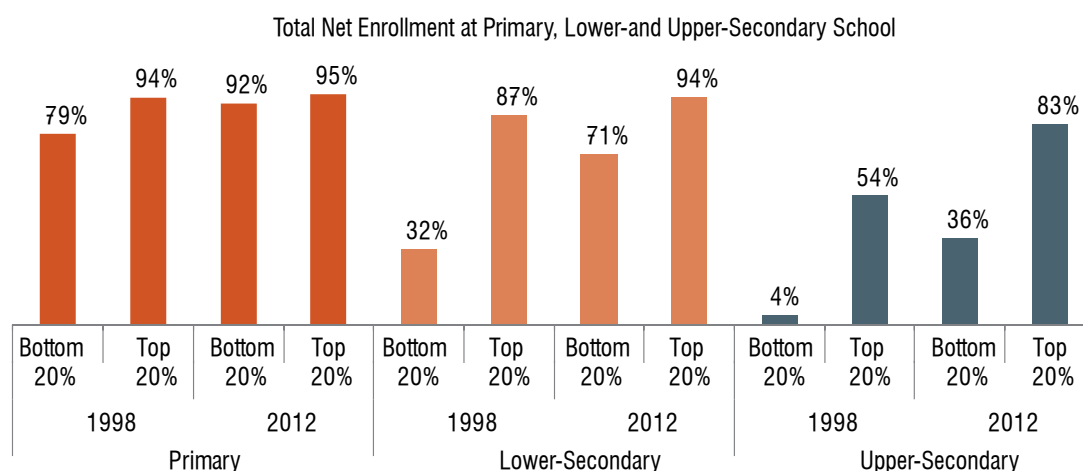
³¹ PAHE 2012

³² World Bank 2011b

unequally distributed at lower- and upper-secondary levels, and the circumstances that a child is born into plays a large role in determining their educational attainment at a higher level. Cost is an obstacle, particularly for those in more remote rural areas who must send their children away to attend secondary school as this focus group participant explains:

“Where is the money to pay for school? Finishing lower secondary school is good enough. Attending high school in the district capital is very expensive so most children stay at home after finishing grade 9.” Respondent from the core village group, Co, Quang Nam)

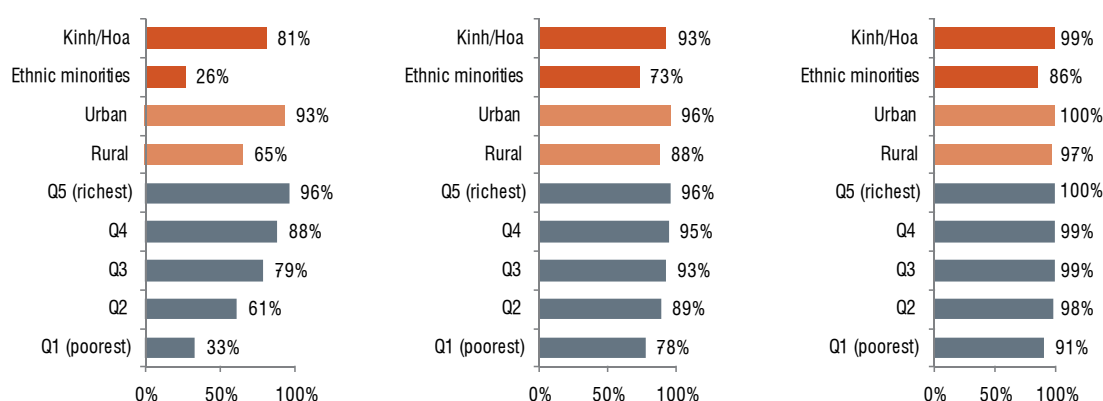
Figure 2.12: Increases in enrollment at primary, lower-secondary and upper-secondary levels for children from all backgrounds



Source: World Bank Staff Estimates using VHLSS data for 1998 and 2012.

65. **Access to basic household infrastructure also constitutes an opportunity.** Access to electricity and improved water sources is at high levels in Vietnam and is fairly equitable. Access rates are lowest for ethnic minorities and for the poorest quintile but still substantial. Access to improved sanitation facilities, however, shows a substantial grade by socioeconomic status. While nearly all Vietnamese in the top quintile have improved sanitation facilities, this is true for only 33 percent of those in the poorest quintile and just 26 percent of the ethnic minorities.

Figure 2.13: Percentage of households with access to basic infrastructure



Source: World Bank staff analysis of 2012 VHLSS.

II.4. High End Inequality

66. **Much of the worry about rising inequality is focused on the gap between the very wealthy and the bulk of the population.** This kind of inequality is the subject of *Capital in The Twenty-First Century*, by French scholar Thomas Piketty, an international best-seller that has precipitated reactions and debate by economists worldwide. Likewise, many respondents to the Vietnam perceptions survey discussed in section II.5 of this study indicated that they were worried about such gaps.

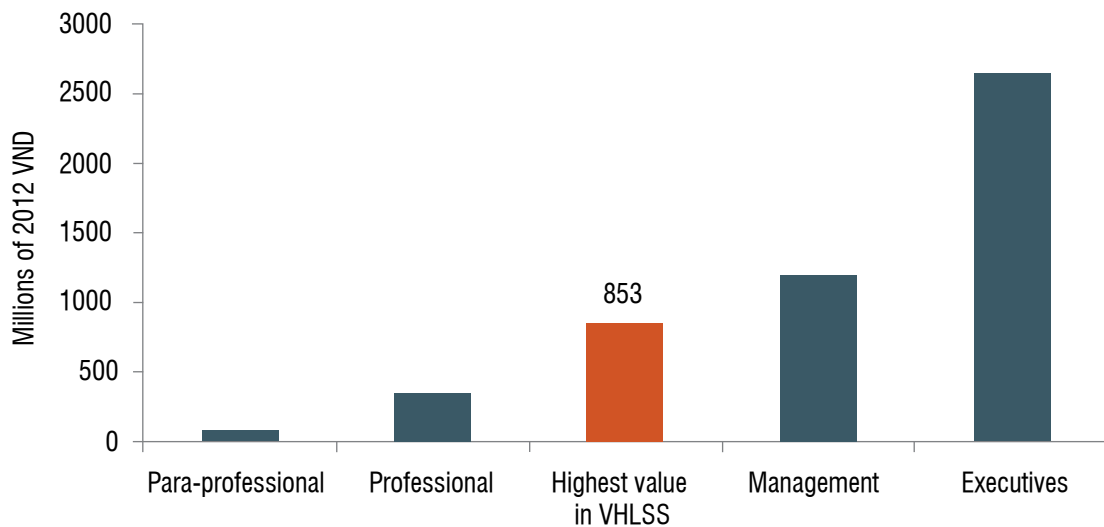
67. **Unfortunately, little is known about inequality at the high end in Vietnam, because household surveys are poorly suited to understanding top incomes.** First, wealthy households that are interviewed for the survey are likely to underreport their incomes. Second, wealthy households are less likely to agree to be interviewed. Third, such households may live in apartment buildings or other residences that enumerators are not able to access. Fourth, given limited sample sizes, it is unlikely that extreme high end households will appear in a typical survey. These problems are common to most household surveys and are not specific to Vietnam.

68. **Corporate compensation surveys indicate significant dispersion at the top.** Reports from compensation surveys carried out by firms that advise corporations on salary levels show average salaries in 4 aggregate categories, compared to the highest reported salary in the Vietnam Household Living Standards Survey (VHLSS), which is the basis for the analysis in Section II.2 of this Special Focus (Figure 2.14).³³ Notably, the top VHLSS value is above the compensation survey averages for para-professionals and professionals, but below the survey's averages for management and executives.³⁴

³³ These surveys are not sample surveys, so it is not possible to estimate how many people in the population receive such salaries. Furthermore, these surveys are typically directed at international firms that pay a salary premium. Nonetheless, they provide some indication of the high-end salary range.

³⁴ Another corporate salary survey, Robert Walters (2012), shows ranges by job category similar to those shown here. Maximum salaries reported in the VHLSS are similar in 2006, 2008, and 2010 rounds are similar to the 2012 value (in inflation-adjusted VND.)

**Figure 2.14: Average Annual Salaries by Type of Position,
According to Corporate Salary Survey**



Source: The highest salary figure in the VHLSS is from Bank staff analysis. Other figures are averages over subcategories presented by Mercer and Talentnet (2012). These figures are based on a graphical presentation and are thus very approximate. All figures correspond to 2012.

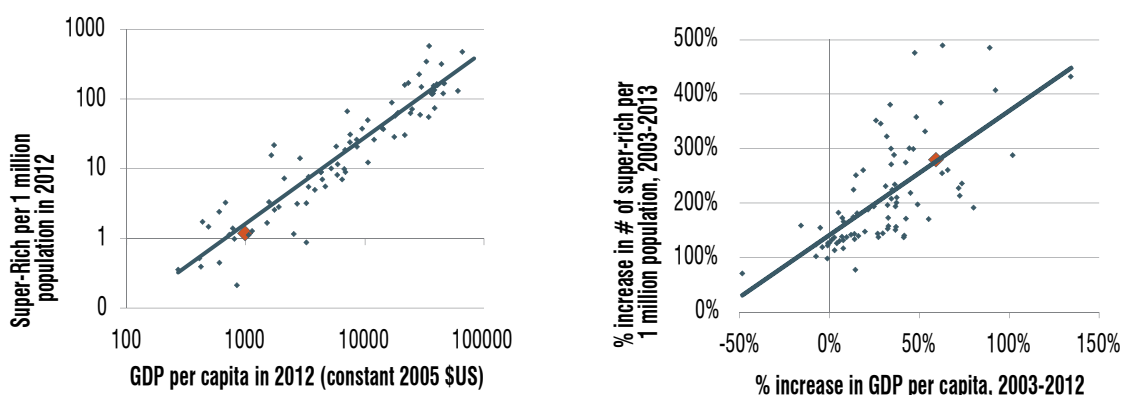
69. **Public information on the holdings of individuals on the Vietnamese stock market further highlights the disparities at the top end.** There has been little change in the average top holdings in the Vietnamese stock market in recent years.³⁵ Wealth at the high end in the stock market is also highly skewed, with the top individual holding nearly 20 trillion VND, 6 times the average of the top 2-10 and almost 50 times the average of the top 11-100.

70. **The number of super-rich in Vietnam and its growth rate since 2003 are typical for a country at its level of income per capita.** The super-rich are defined as those with US\$30 million or more in net assets excluding principal residence.³⁶ In Vietnam in 2013, by one estimate there were 110 super-rich, compared to 34 in 2003. The number of super-rich per million Vietnamese has grown by 280 percent since 2003, reaching just over 1 in 2013. Figure 2.15 plots the level and growth of the super-rich against GDP per capita for 84 countries including Vietnam. Best-fit lines on the plots show the average relationship between GDP per capita and both the level and growth rate of the super-rich population. The first figure indicates that the number of super-rich in Vietnam is not extraordinary for a country at its income level. Likewise, the second figure shows that the number of super-rich has increased dramatically worldwide and that the increase in Vietnam is typical of a country that has achieved Vietnam's growth rates.

³⁵ This data does not present a comprehensive picture, because wealthy individuals will typically have other assets, including bank deposits, bonds, real estate, holdings on other stock exchanges, and business ownership shares not traded on the stock market.

³⁶ Many international consulting companies maintain databases of the world's wealthy and publish annual world wealth reports, with varying definitions and categories of wealth. These figures are drawn from Knight Frank Research (2014).

Figure 2.15: The number and the rate of increase in the number of super-rich in Vietnam are similar to that of other countries with similar levels of income



Source: World Bank staff analysis based on counts of super-rich population from Knight Frank Research (2014) and population and GDP data from World Development Indicators. The red dot corresponds to Vietnam.

71. **One other very crude measure suggests that wealth inequality in Vietnam is not as extreme as compared to other countries.** Vietnam has just one individual on the Forbes (2014) billionaires list, with wealth of \$1.4 billion. In many other countries, including several developing countries, the richest individuals have higher levels of wealth. The richest individual in Vietnam has assets equivalent to nearly 800,000 times the country's average per capita income, amounting to nearly 1 percent of annual GDP. These figures are far from the global extremes. In Mexico, for example, the richest individual's wealth is more than 7 million times average per capita GDP, and more than 6 percent of total GDP.

72. **Further creative approaches are needed to understand the evolution of inequality in Vietnam.** The data presented here provide only a highly imperfect picture. Other approaches have been used to analyze top end incomes and wealth in other countries. In particular, much of the work in Piketty (2014) is based on data drawn from income tax records in a number of countries. Tax data have their own weaknesses: in many countries, including Vietnam, relatively few people are subject to tax, and tax evasion strategies will depress reported incomes.

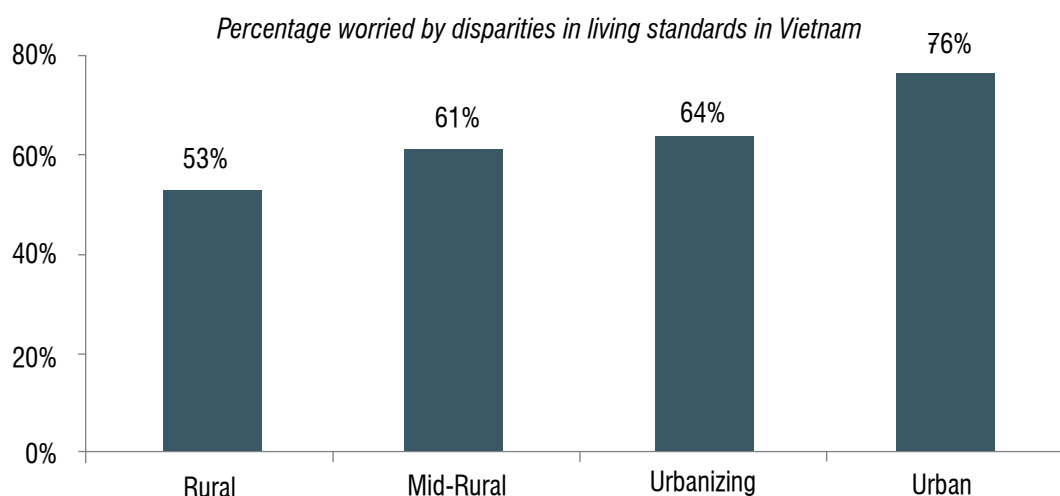
II.5. Perceptions of Inequality

73. This section describes the views of Vietnamese people about inequality based on a new Perceptions of Inequality Survey carried out by the World Bank and the Institute of Labour Science and Social Affairs. The survey provides a unique look at the extent to which Vietnamese citizens are concerned about inequality, what types of inequality they are most concerned about, and who displays the greatest concern.

II.5.1 Are Vietnamese citizens concerned about inequality?

74. While the level of and increases in measured inequality have been moderate, perceptions among major population segments show concern about inequality. A majority of all those surveyed, and eight in ten urban residents, said that they worry about disparities in living standards in Vietnam (Figure 2.16). Similar sentiments were expressed about inequality in China in 2004, where 72 percent of respondents thought that inequality was excessive.³⁷ Vietnamese respondents expressed slightly less concern about inequality in the 2006 World Values Survey than respondents from many other countries, including China, Russia and India.³⁸

Figure 2.16: Inequalities in living standards are considered to be a problem by the majority of respondents, and are a greater source of concern in urban areas than in rural areas



Source: World Bank Staff Estimates using the Perceptions of Inequality Survey.

³⁷ Whyte 2011

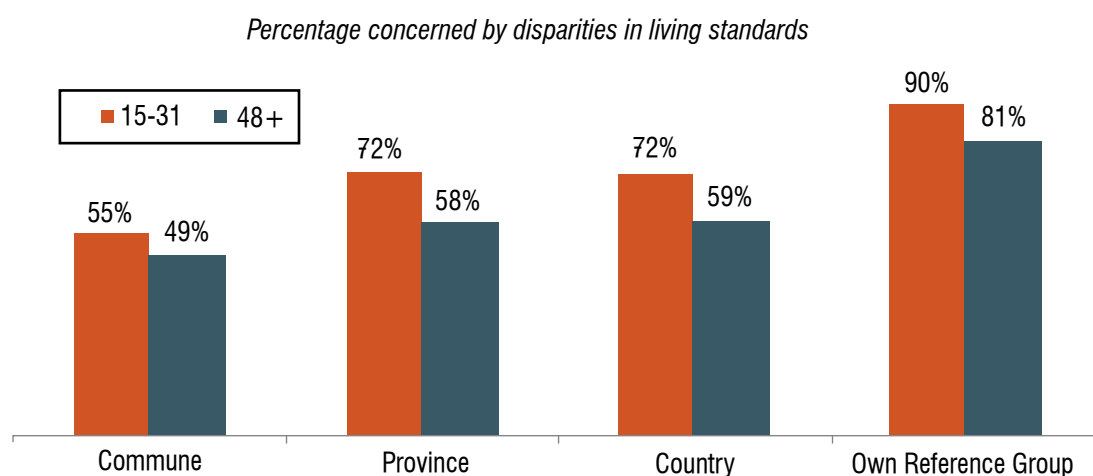
³⁸ World Bank Staff Estimates using World Values Survey data.

75. **Local level inequalities in living standards generate less concern than nationwide inequalities.** Over 95 percent of respondents in rural or urban areas signaled that they saw differences in living standards within their communes, but only half of respondents thought they were a problem. This may partly reflect a clustering of individuals with relatively similar standards of living within communes. Similar patterns have been found in China: a national survey of views about inequality conducted in 2004 found that most Chinese felt income differences at the national level were larger than they should be, but only one in three felt that current income differences in their local environments were excessive.³⁹

76. **The inequalities that are seen as most problematic are within the group that the person compares herself to.** Survey respondents were asked to describe the people in society that they consider to be rich, poor, and about average. A person's *reference group for inequality* was defined as the people they described in this exercise. Respondents reported that they were most worried about inequality in their individually-defined reference group.

77. **Younger people are more likely to be worried about inequality than older people, and urban residents are more likely to express concern than rural residents.** Younger people are more likely to indicate that they worried about inequality in all dimensions, and across all levels of aggregation – at the commune, provincial and country level – than older people.

Figure 2.17: Young people are more likely to express concern about disparities



Source: World Bank staff estimates using the Perceptions of Inequality Survey. The figure shows the percentage of respondents expressing concern about inequalities at a commune, provincial, country wide and own-reference group level, by age-group.

78. **Urban residents express the strongest concern about inequality.** In rural areas, only half of respondents were concerned about nationwide disparities. Similar patterns were found in two surveys of perceptions of inequality in China – rural respondents had more positive views about income inequality than urban respondents.⁴⁰ The differences in views across urban and rural areas may reflect a number of factors, such as the diversity of people that respondents are surrounded by and see in their everyday lives, how much they travel and where they get their information from.

³⁹ Whyte 2010

⁴⁰ Whyte 2014

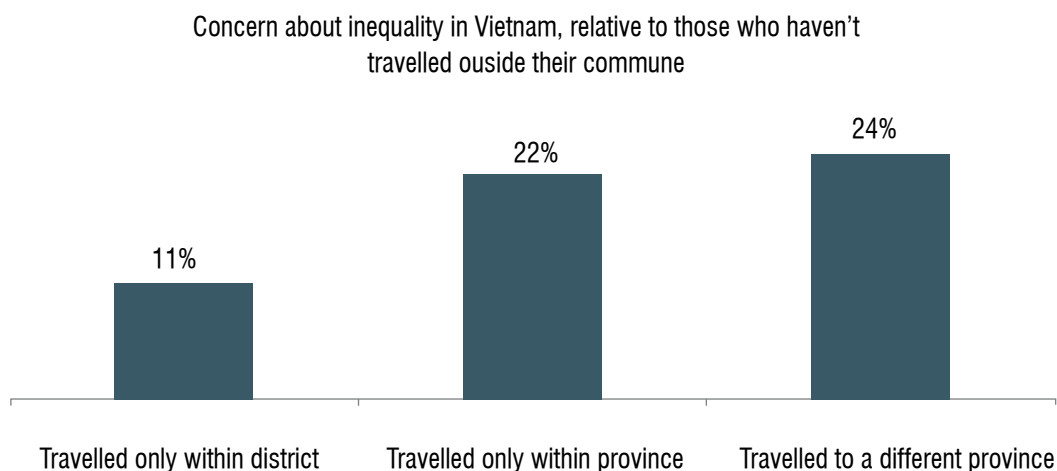
2.5.2 Why do views about inequality differ?

79. **Examining why views differ across people can inform us about how concern for inequality may change with urbanization and generational shifts.** There is great variation in how people think about inequality, and in particular in their reference groups. Getting a better sense of what inequalities people see and are concerned about can help to track how societal views about inequality may shift over time. For example, among the people in rural areas, those who have travelled less, and those who rely on local information sources think chiefly about the rich and poor that they know personally. Trends in urbanization, changes in information sources and increased travel are likely to transform what people see and think about disparities in living standards.

80. **A lack of concern about inequality may reflect not fully seeing the disparities that exist in Vietnam.** There are two reasons why people may be unconcerned about disparities in living standards. First, they could acknowledge that inequalities exist and think about them, but not consider them worrying. Alternatively they may not recognize that they exist at all and therefore not be troubled by them. The PIS survey allows us to distinguish between these explanations. More than 30 percent of rural respondents and 10 percent of urban residents signaled that they did not think about inequalities in Vietnam at all.

81. **Differences in concern about inequality in Vietnam are partly explained by what people see around them:** urban residents are more likely to see inequalities in everyday life due to the greater exposure that they have to people from different backgrounds. People from urban and urbanizing areas are more likely to report about people they have seen but do not know personally. For example, in one focus group setting a market seller in Ho Chi Minh City reported that *“the richest person I know of is a woman who lives close by and buys all the fruit and vegetables that she wants without even asking the price. I don’t know much about her and don’t speak to her, but she must be very well off.”* In rural areas, respondents reported more from their direct experience of people whom they know personally.

Figure 2.18: Travel is likely to increase knowledge and concern about inequality

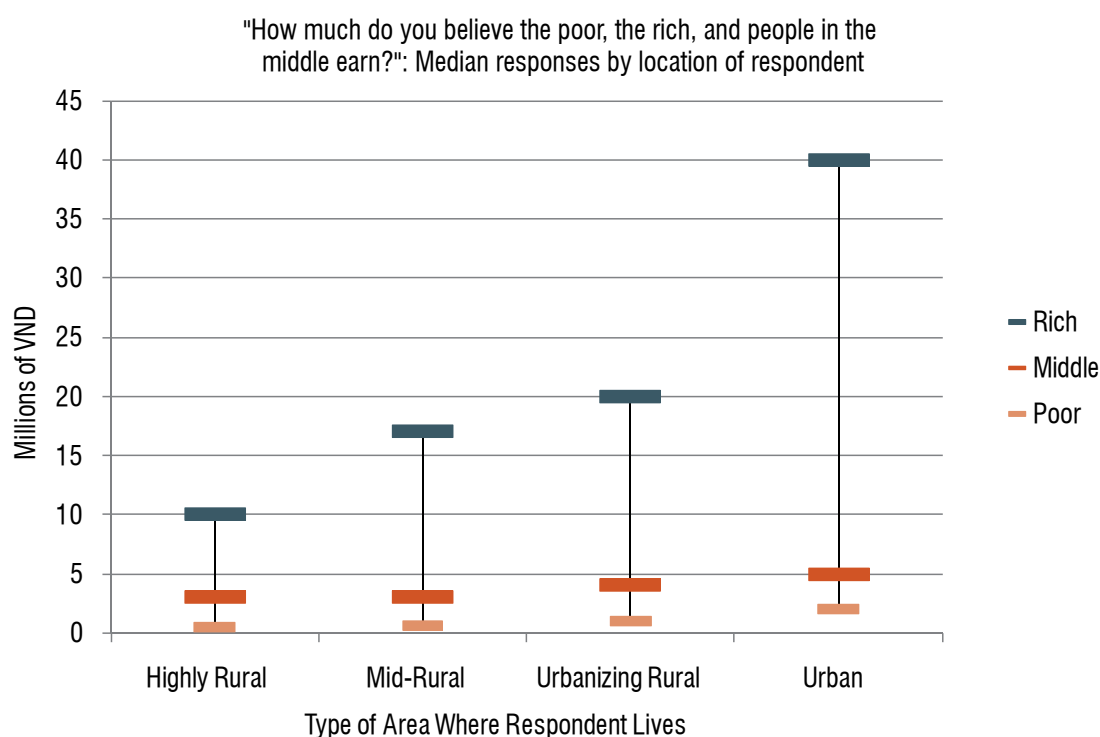


Source: World Bank staff estimates using the Perceptions of Inequality Survey. The figure shows the percentage increase in concern about inequality relative to those who haven't travelled outside their commune. The results reported are estimates from an OLS regression in which the dependent variable is whether the individual is concerned about province or country level inequality. The regression controls for age, sex, education, log per capita monthly income, urban/rural status, information sources and perceived incomes of the rich, poor and average households

82. **Urban people see wider income gaps between the rich and the poor and are more likely to speculate about the super-rich.** The PIS asked individuals how much they thought the rich and the poor earned in a month. There were substantial differences between rural and urban areas in what people considered to be “rich”— in rural areas, the average income earned by someone among the richest was thought to be 10 million Dong a month while in urban areas the rich were thought to earn 4 times as much: 40 million Dong a month. Urban and urbanizing areas are more likely to mention rich people who they do not know personally, and to report very high income values compared to rural residents. The income values reported among some urban respondents are similar to the top incomes discussed in section II.4.

83. **There is greater consensus about what it means to be poor in Vietnam.** Those living in rural, mid-rural, and urbanizing areas had similar views of the incomes of the poor, describing them as earning approximately 500,000 dong a month. Speculation about the rich and super-rich may therefore disproportionately affect concerns about inequality.

Figure 2.19: Urban people are more likely to see inequality, and to see larger disparities between the rich and the poor



Source: World Bank staff estimates using the Perceptions of Inequality Survey.

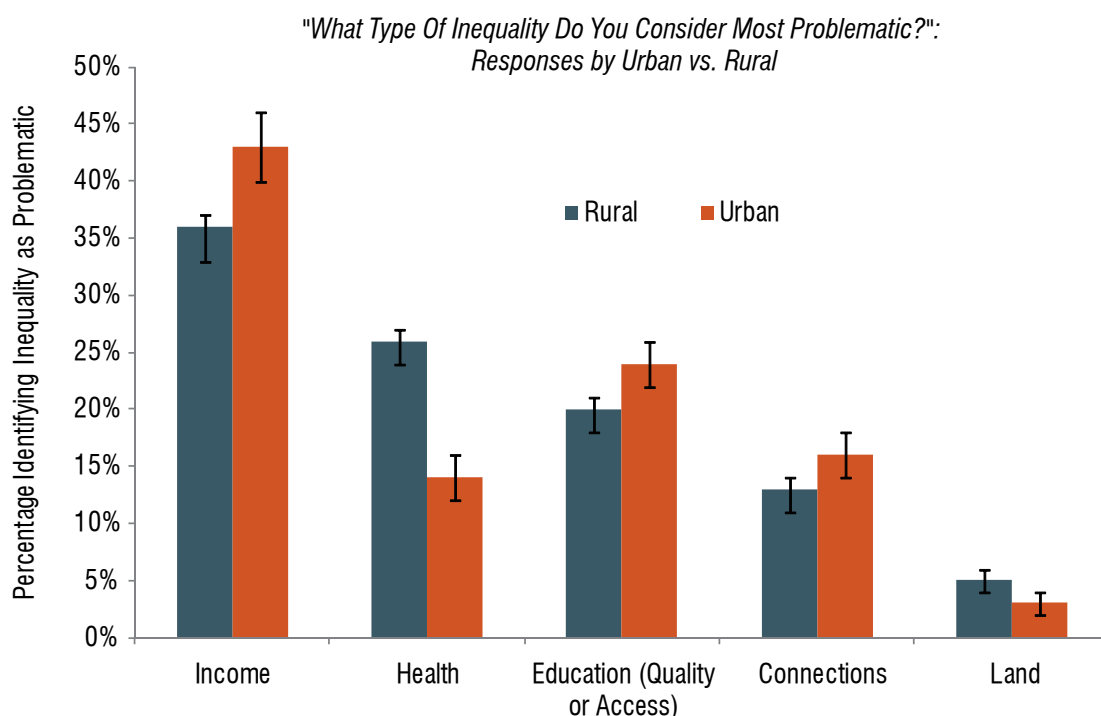
84. **Urban-rural differences in concern about inequality are a reflection of greater mobility and more information.** People who travel widely are far more likely to see and think about disparities across Vietnam and consider it to be problematic than those who do not travel at all (Figure 2.19). Residents in rural areas are less likely to travel and, when they do, they travel less than those from urban areas. Nearly all respondents reported awareness of events in greater Vietnam, but there are differences across people in how they choose to inform themselves. Urban residents are more likely to be connected to the internet and to use written media sources to find out about life in Vietnam. Half of the difference in perceptions between urban and rural areas can be explained by people in rural areas being less likely to travel widely and by the use of different information sources in rural areas.

85. **The higher level of concern about inequality among the youth partly reflects greater access to national media and the internet and suggests that there may be generational shifts in the way that people think about inequality.** In the PIS, respondents were asked about their three main sources of information about life in Vietnam. Nearly half of respondents aged between 16 and 32 reported getting information from the internet, compared to less than 15 percent of those over the age of 32. They were also substantially less likely to rely on local sources of information, such as family, friends and commune officials.

II.5.3. What type of disparities cause the greatest concern?

86. **Disparities in access to and quality of health care are a greater focus in rural areas while disparities in education quality or access are a greater concern in urban areas.** Respondents in the PIS were asked to signal which type of disparity they considered to be most problematic (Figure 2.20). Residents of urban areas were more likely to report that income inequalities were a source of concern than rural residents. Although residents of both rural and urban areas expressed substantial concern over disparities in access to health and education public services, rural residents were over 10 percentage points more likely to report concern about health disparities than urban residents. Land disparities were the least likely of all to be raised as a concern in both urban and rural areas, a surprise given the important role of land as an income generating asset in rural areas. Unsurprisingly older cohorts were the most likely to express concern about health disparities and were less concerned about disparities in education than younger cohorts.

Figure 2.20: Disparities in living standards are considered to be a problem, particularly in urban areas



Source: World Bank Staff Estimates using the Perceptions of Inequality Survey.

87. Among older cohorts and rural households, inequalities in health and education are a bigger worry than inequality in outcomes. When asked which form of disparity they thought was most problematic, rural and older respondents were more likely to report being concerned about disparities that affect the opportunity that a child or adult has to improve their circumstances in life - disparities in health care access and quality, education access and quality. Nearly half of all respondents living in rural areas were most concerned about inequalities in health and education. In Ho Chi Minh City and among the youth, income inequalities were considered to be most worrying; 44 percent of urban respondents and 50 percent of youth were more concerned about inequalities in incomes. Inequalities of process – for example, influence with officials that are used for economic gain or to get better access to public services – were less likely to cause the greatest concern, and were seen as most worrying by approximately 15 percent of respondents. The focus on inequality of education and health is likely to reflect the emphasis placed on these public services for allowing the children of poor families to succeed in life, as expressed by a focus group respondent:

“My only hope is for my kids to have a good life as other people’s kids. Today I might be too poor to hold my head up, but if in the future my kids can be better off than their parents, then I’m glad.” (poor Kinh, Quang Nam)

II.5.4. What do people see as the drivers of inequality?

88. The majority of respondents said that disparities between rich and poor were driven in part by “positive” forces, notably talent and hard-work. Rising income inequality was largely viewed as acceptable among focus group respondents in the qualitative studies if rising disparities in incomes were associated with hard-work, effort, investment in education, and legitimate income generating activities. Six out of ten respondents said that the most important reason why richer people are better off was because they were talented or worked hard. The opinions of the Vietnamese are similar to those found in China and the US, where there is a strong belief among the majority that talent and hard work pay off.⁴¹ These views are reflected in the responses of two focus group participants:

“I think family background is not very important. Look at the youth union secretary in our village. His parents used to be the village poorest, but now no one else in the village is better off than him.”

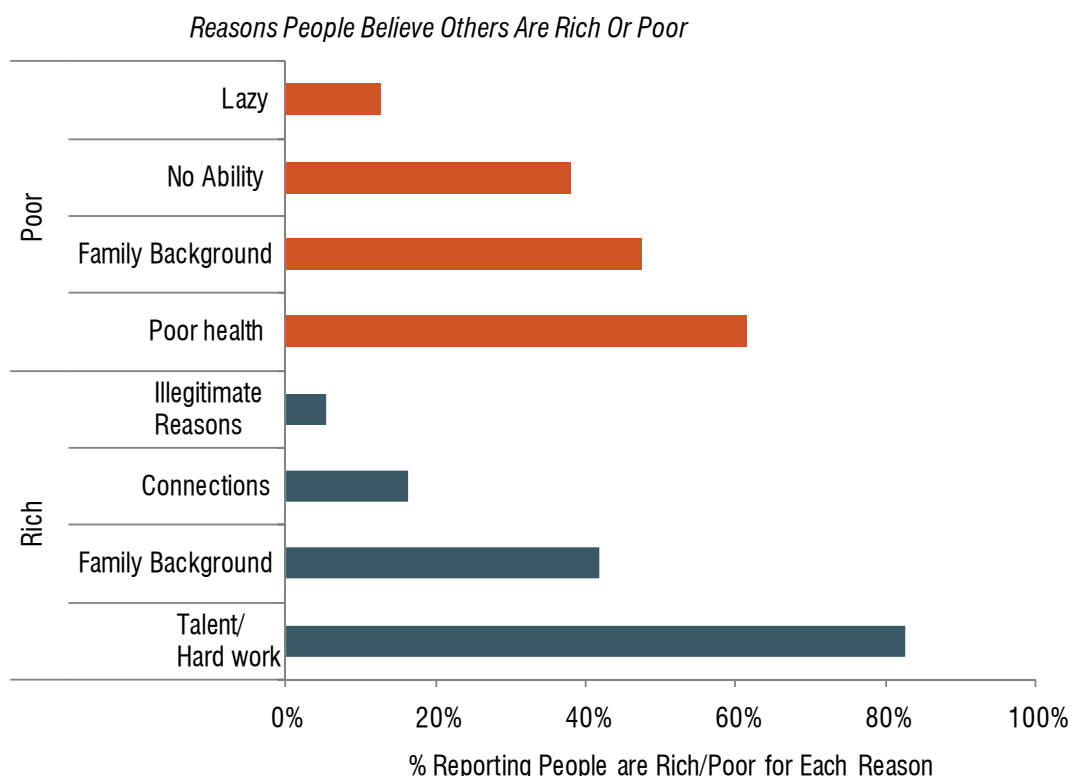
“There are rich and poor people in any society. Rich people have good education and know how to do business. I cannot blame my poverty on anyone.” (Poor respondent, Khmer, Tra Vinh)

89. A substantial minority highlighted the role of family circumstances. Alongside acknowledging the role of hard work in determining how a person fares in Vietnam, many people signaled that the family was important for determining where someone ended up in life. Four in ten respondents attributed the success of richer individuals and households to their family circumstances and nearly half attributed poverty to family circumstances, like this focus group participant:

“When you are poor, you have little money to invest in your children’s education, hence children are likely to be illiterate just like the parents. Poor households could only afford to have their children finish grade 12th.” (Focus group respondent, Khmer, Tra Vinh)

⁴¹ Whyte 2014, Alesina and Angeletos 2005, and World Bank Staff Estimates from the World Values Survey

Figure 2.21: Many people believe the rich are better off because of hard work and talent, but family position, connections and illegitimate reasons also play important roles. Poverty is perceived to be due to circumstances that are often out of the person's control, including poor health.



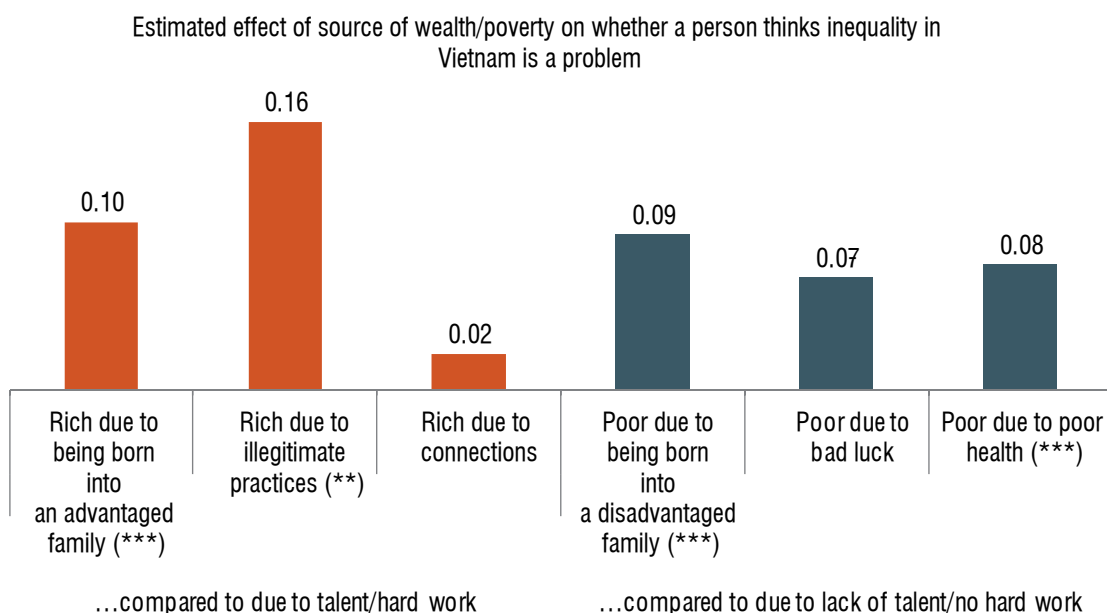
Source: World Bank Staff estimates using Perceptions of Inequality Survey.

II.5.5 Why do perceptions matter?

90. **Concern about disparities between the rich and poor are greater when a person believes that the disparities are driven by illegitimate practices.** Respondents who believed that the rich are better off due to using illegitimate means to earn income were more likely to think that income disparities in Vietnam were a problem, and were also more likely to think that disparities in education and health were problematic (Figure 2.22). Those who believed that the rich earned their income through illegitimate means were 16 percentage points more likely to think that income inequality was problematic compared to those who believed the rich earned their income through hard work or talent. Both the PIS and the qualitative study show that disparities due to illegitimate practices are less likely to be tolerated.

“There are types of illegitimate richness, and we do not accept these types, we see them as being an injustice. For example, some traders sell seedlings to us at extremely high prices. And corruption happens at all levels.”
(young person, Chieng Khoa commune, Son La)

Figure 2.22: People are more likely to be worried about inequality if they think the rich are better off due to being born into a wealthy family, using illegitimate practices, or having connections



Source: World Bank staff estimates using PIS data. The estimates reported capture the effect of sources of wealth/poverty on whether a person believes income inequality to be a problem. A linear probability model was estimated; reported estimates are conditional on age, sex, education, urban/rural status and log household income.

91. **Urban people are far more likely to see corruption, family background and illegitimate practices as reasons for why rich people are better off.** Although it is difficult to predict how views of the rich and poor will change over time with greater urbanization, the greater focus on success due to factors outside of the control of an individual in urban areas may lead to greater negative sentiment about inequality in the future.

92. **Those who believe that factors out of the control of an individual are the most important drivers of success in Vietnam are more concerned about inequality and are less likely to believe that they can improve their lives through hard work.** Those who believe that the rich are well-off due to coming from better off families are 10 percentage points more likely to consider income disparities in Vietnam to be problematic than those who believe talent or hard luck to be the driving force. This may be driven by a sense that it is difficult or hard to replicate the success of others when unchangeable family circumstances are the driving force for inequality. Similarly, inequality is viewed as more problematic when poverty is believed to be driven by circumstances that are out of the control of the poor – for example by being born into a disadvantaged family, due to having poor health or being incapacitated to work.

II.6. Implications

93. **Household survey data suggests that inequality in living standards has not changed substantially over the last two decades, and that inequality of opportunities has narrowed in some domains.** These facts of inequality might be interpreted to indicate that inequality is a secondary concern in Vietnam. However, popular concern for inequality is likely to rise over a time, principally as more young people move to urban areas, connect with modern media, and become personally exposed to the wide differences between rich and poor that characterize a modern market-oriented economy. Personal wealth 800,000 times average national income would be inconceivable to most rural residents but is readily understood by young Vietnamese adults living in Ho Chi Minh City and plugged into the internet and global media. Popular concern matter because the negative effects of inequality—particularly a potential decline in social cohesion and trust—are driven by perceptions as well as reality.

94. **Respondents of the perceptions survey strongly supported government redistributive policies as a means of reducing inequalities in society.** Over eight in ten respondents agreed that “the government should transfer a part of the income of the wealthiest/rich group to the poorest group”. A similar question was asked in the Life in Transition Surveys conducted in Europe and Central Asia. Support for redistribution in Vietnam is similar to that in Sweden and the United Kingdom and higher than that found in Belarus, the Czech Republic and the Ukraine ⁴². In Vietnam, the most favored mechanism for supporting the poor was through cash transfers, both unconditional and conditional on health and education behaviors, rather than through community investments, vocational training or direct productive investments.

95. **The perceptions survey results provide a new perspective on inequality in Vietnam but do not point to strong policy implications.** They suggest that Vietnamese citizens are concerned with inequality particularly that driven by corruption, family background, and illegitimate practices. The survey provides a baseline to monitor the evolution of concerns going forward.

96. **A policy focus on further tackling barriers to equality of opportunity is a sensible response to rising concerns about equality, for several reasons.** First, inequalities in opportunities affect the ability of Vietnamese children to succeed in life and imply that Vietnam is not making the most of its most important asset, its youth. Vietnam is transitioning towards an aging society with a shrinking youth population, making investing intensively in youth from all backgrounds even more beneficial. Second, inequalities in opportunities are seen as the most worrying form of inequality in Vietnam, particularly among rural and poorer people. Third, inequalities driven by circumstances – where poverty begets poverty, wealth begets wealth – are associated with more limited economic and social mobility.

97. **There are many avenues for reform in education and health provision among Vietnam’s youth that can promote greater equality of opportunities.** Previous work by the World Bank has identified a number of areas where inequality of opportunities could be reduced:⁴³

⁴² Cojocaru and Diagne, 2014

⁴³ World Bank, 2013b.

- For children under age 3, it is critical to provide holistic health and educational support, including quality pre-school, at the earliest age in order to make the most of the potential of all children from all backgrounds – rich and poor. The support for children aged 0-3 remains weak in Vietnam. Promoting good feeding and stimulation practices early on has been shown to have substantial rewards in other contexts. Interventions that have been found to be effective range from group support for breastfeeding, curriculum based parenting classes and parent counseling.
- Among 3 to 5 year olds: there is close to universal pre-school for five year olds in Vietnam under program 239, and there is investment to facilitate access to preschool for the most disadvantaged between 3 and 5. But this does not cover all those in need of support, and there is more that can be done to raise quality across the country. The policy framework and approach at the national level is well established for those aged 3 to 5, but the implementation of the framework varies across areas.
- For school-aged children, promoting more schooling, either through full day schooling at a primary level or through increased support for poorer households to keep their children in school at a secondary level, will reduce gaps in both the type and amount of education being received by wealthier and poorer households.
- Finally, there are clear information gaps across rural and urban areas that are likely to affect education and career choices of rural youth. These gaps could be bridged in several ways, including through more structured career guidance at school, through fostering a system of external accreditation to vocational and higher education institutions, through employers and universities reaching out to rural students and to ensure that the education that they are providing meets the needs of the labor market, and through students and parents can do more to gather information on the labor market that they are entering.

Box 2.1: Data used in the special focus section

Perceptions of Inequality Survey (PIS). The analysis will use a survey that was designed to deepen our understanding of how people view differences in standards of living. The survey was conducted by the Institute of Labor administered to respondents in 4 provinces at different levels of development – Ho Chi Minh city, a rapidly urbanizing province adjacent to Ho Chi Minh City (Long An), a less-developed and relatively isolated rural province (Quang Nam) and a rapidly urbanizing province adjacent to Ha Noi (Ha Tay). The questions in the survey were designed to gather the respondent's views about disparities over different domains (income, consumption, wealth, education, health, voice and influence etc), their tolerance for these disparities, their views about what drives these inequalities and their demands for policies to redistribute resources. The survey sample overlaps an existing labor force survey in Ho Chi Minh city (conducted in 2011) and the Vietnam Access to Resources Household Survey (conducted in 2002 and biennially since 2006) in Long An, Quang Nam and Ha Tay. The overlapping surveys provide extensive information on household incomes and access to resources that allow for a comprehensive analysis of the determinants of views about inequality to be conducted.

Qualitative Survey on Perceptions of Inequality: A complementary qualitative study was conducted by Ageless Consulting and financed by Oxfam. Focus groups were conducted with individuals from richer and poorer backgrounds, older and younger generations to elicit views about inequality. The qualitative study asked overlapping questions to the quantitative survey but also focused on questions that were harder to capture through a pre-coded survey instrument, notably inequalities in voice in local decision making processes, and the impact of inequalities on trust and confidence in local public officials.

Vietnam Household Living Standards Survey: The analysis examines the growth and inequality over time using the 1993, 1998, 2004, 2006, 2008, 2010 and 2012 rounds of the nationally representative Vietnam (Household) Living Standards Survey (VHLSS). The VHLSS contains detailed data on individuals, households and communes at three points in time. Individual data include information on demographics, education, employment, and health, and household data contain information on a range of indicators, including assets, income and expenditure. The surveys are representative of rural/urban areas and 6 geographic regions.

Changes in the survey design over time have resulted in some incomparabilities between rounds. Revisions in the income module between 1993 and 2004 reduce the comparability of income estimates from these two periods. The 2010 VHLSS differs from earlier rounds (2004-2008) in terms of content as well as sampling design; the 2012 VHLSS is unchanged from the 2010 round. The main changes in the 2010 round include a shortening of the questionnaire, a change in the recall period used in the consumption, and the drawing of the sample from the 2009 instead of the 1999 Population Census. The consumption aggregate however changed substantially between 2004 and 2010, therefore rendering the consumption series incomparable over this time frame. The income modules remained similar over time allowing a comparison of income data between 2004 and 2010.

Expenditure versus incomes: Household expenditure can be thought of as an estimate of “permanent income” while annual incomes are more likely to reflect transitory deviations from a household's smoothed permanent income. It would be preferable to focus on expenditures to capture inequality in well-being. However, in Vietnam it is not possible to do a long-term assessment of changes in expenditure inequality over time due to changes in the measurement of expenditures in the 2010 VHLSS. In addition, a focus on expenditure inequality does not allow for an assessment of how changes in the sources of income and the structure of work have influenced inequality.

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