The Social Consequences of Economic Transition in Vietnam

By

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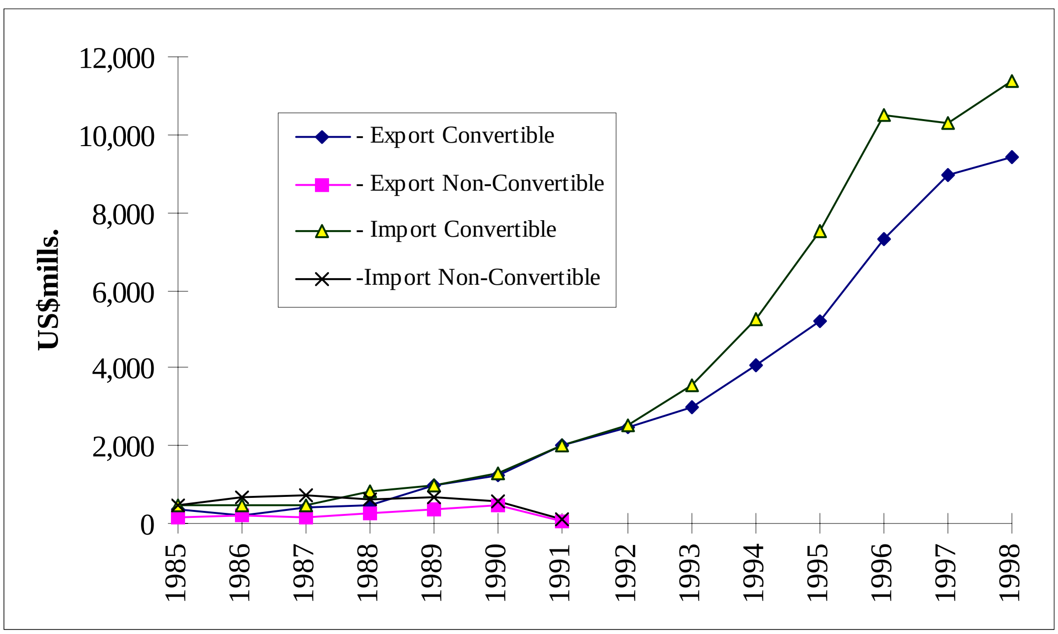
Contents:

An economic success story

The economic performance of Vietnam in the 1990s would be classified as a "miracle" if such achievements were not so common in the latter half of the twentieth century. GDP growth rates ranged between 8.1 percent to 9.5 percent during 1992-97, led by industry and services, but with average agriculture sector growth still an impressive 4.8 percent per annum.

Transition, typically identified as "starting" in 1986, was a relatively painless affair of structural adjustment and stabilisation – at least for the first decade. The state sector was never large in Vietnam, where 80 percent of the population lived in rural areas, mostly growing rice. Further, by 1986 the planned part of the economy was thoroughly undermined, and inflation had eroded any monetary overhang. The collapse of the CMEA trading relationship forced restructuring in the modest state-owned enterprise sector, which shed almost one-quarter of its workforce (see Table 3). Institutional reforms also, however, created a boom in the urban household economy that soaked up the unemployed. The shift in markets was relatively easy without the burden of a large military-industrial complex, and Vietnam's exports to CMEA found new Western buyers with ease.

Figure 1: Vietnam's change in trading partners, 1985-1998.

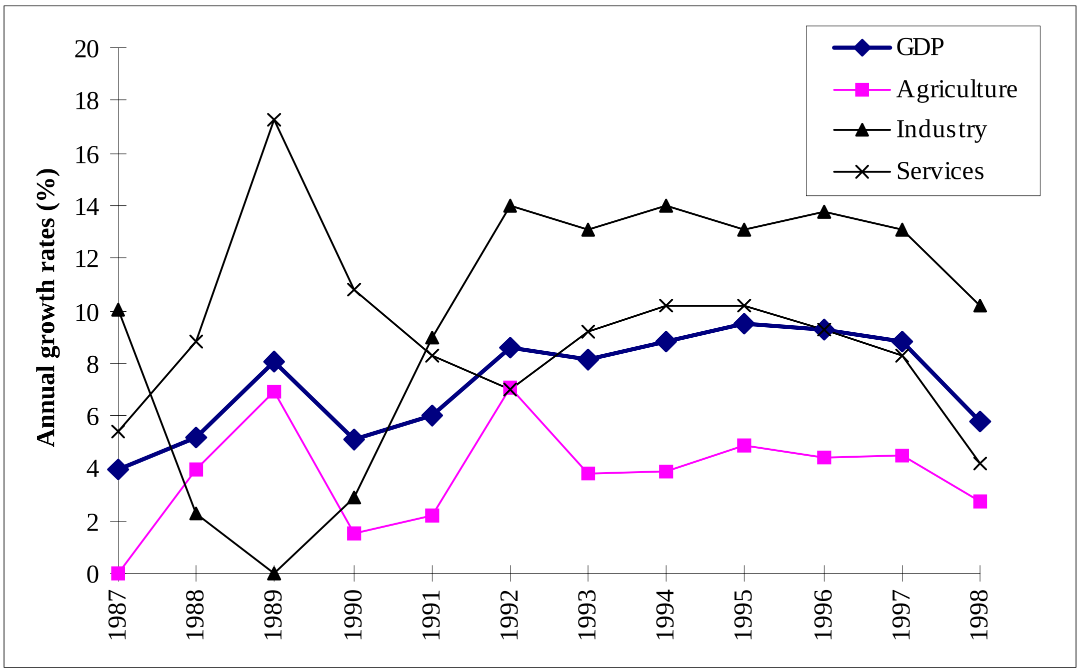


Exchange rates: (1985-1988 US$1 = 2.55 transferable rubles; 1989-1993 US$1 = Rb2.4).
Sources: Le Dang Doanh, 1994. "Economic Reform in Vietnam: Achievements and Prospects", paper presented at an International Centre for Economic Growth 'Asian Transitional Economies Workshop', Jakarta, April. And GSO 1998.

Vietnam, therefore, did not experience any transitional J-curve phenomena in prices, trade or even in the rate of GDP growth. The only exception to the "costless" scenario was in industry, which slumped between 1988-89, but at the same time as agriculture and services sector booms, which caused GDP to rise over the period (Figure 2).

It should be emphasised that this success was largely because only a residual planning system remained by 1988: the failure to rigorously implement the central planning model in the decade since 1976 became a virtue for transition after 1986. Consequently, comparisons with other transitional economies, such as Cuba, China and Eastern Europe, where planning was much more extensive, must be undertaken with caution.

Figure 2: GDP and sectoral growth rates, 1987-98.



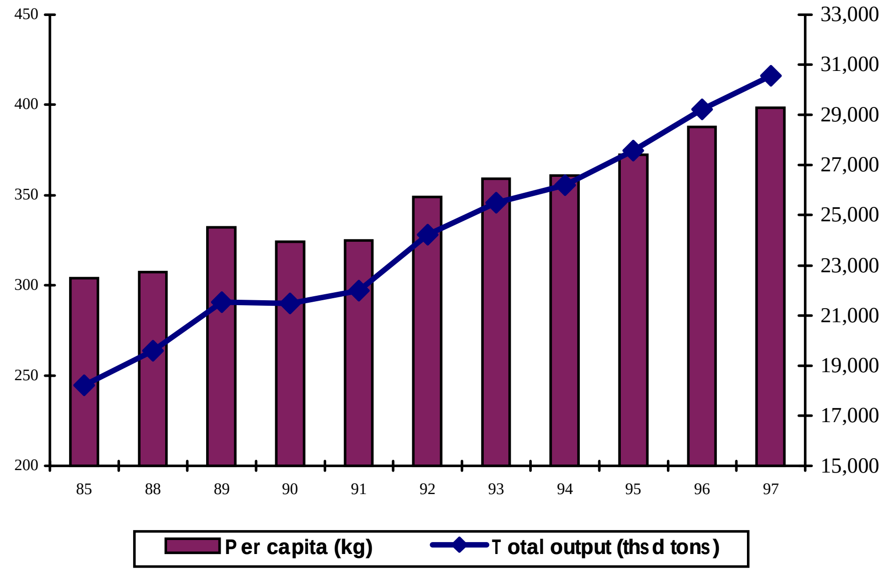
Source: GSO 1998

The period since 1986, however, has not been without its problems. Many of these, such as rural-urban income inequality and migration, are more typical of a fast-growing developing economy than a transitional one, as such. There seems little point in trying to distinguish "transitional" from other causes of changes, but we should bear in mind that Vietnam is both a fast-growing developing country and an "economy in transition". The social consequences of transition have been due to fundamental changes in incentive structures and regulations, most of which have been positive. The rest of this chapter surveys these changes and their consequences under six headings: food, poverty, land, employment, social protection systems, health and education.

Food

The rise in gross food output has been a feature of Vietnam's success story. Figure 3 shows that total food production increased by 50 percent in 10 years (and 30 percent on a per capita basis). Livestock numbers and industrial crop production increased even faster (GSO 1998, p.42). This extraordinary performance has enabled Vietnam to become a major rice exporter, and has caused a steady decline in the incidence of poverty. The performance, of course, was not consistent across all Vietnam.

Figure 3: Total and per capita food production, 1985-1997.

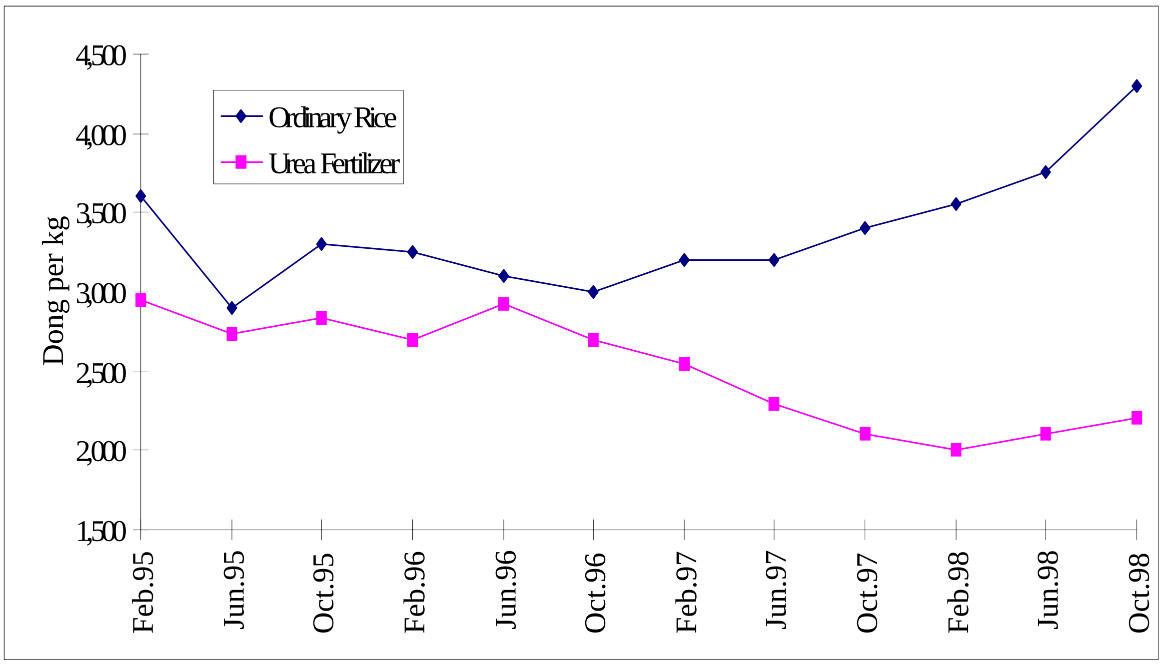


Source: UNDP (1998)

The growth in rice output (which constitutes over 90 percent of total food output) is despite ongoing controls on exports for reasons of food security. The food security argument for rice export quota controls weakens every year as per capita output increases. Food security concerns in 1999 are focused on distributional constraints and the possibility of localised shortages, in this context the rationale for quantitative controls on exports is unclear. Nevertheless, they remain, and, incidentally, are an important source of economic rents. The International Food Policy Research Institute have done research which estimates that without quotas (and with some bold assumptions), paddy production would rise by about 12 percent, with rice exports going up to about 5.7 million tonnes, while the domestic rice price would rise by around 20 percent, and farm income per capita go up by about 28 percent (UNDP 1998, p.32).

Rice exports were, however, liberalised quite substantially during 1997-98. Restrictions on domestic trading in rice were removed in 1987, and then local governments were allocated greater shares of rice export quotas. In 1998, more companies were allowed to participate in the rice export business. These institutional changes stimulated competition and convergence between export and domestic market prices for rice. The Asian financial crisis also saw a fall in the cost of fertiliser imports, some of which was passed on to farmers. The result, possibly for the first time in Vietnam's economic history, was a divergence between input costs, notably fertiliser, and output prices (Figure 4). In the prior environment of strong local purchasing and national export monopolies, farmers were paid, in effect, on a cost-plus basis. This has changed, and farmers with a surplus to sell have benefited greatly.

Figure 4: Vietnam's rice and fertiliser price trends, 1995-1998
(spot prices every four months).



Source: Institute for Market and Prices, Hanoi.

By November 1998, the export FOB price for 5 percent broken rice, at US$273 per tonne, was equal to the domestic price per tonne of white rice. The subsequent four months have seen a fall in export prices to US$236 per tonne, but the domestic rice price has risen from 3,750 dong per kilogram to 3,900 dong (Vietnam Economic Times). It seems unlikely that domestic rice prices will continue to rise, unless export prices pick up again.

Liberalisation of markets and a strengthening of property rights have generated strong supply responses in the agriculture sector during transition. The benefits, as may be expected however, have not been evenly spread. More farmers are losing their land. Those who were growing only enough to survive have been bypassed by the reforms. The bottom strata of the poor remain very poor, and the task of lifting these households out of poverty is more complex than it was for those who were, or were capable of producing a surplus for markets.

Poverty

The definition of a household in poverty has been a subject of some controversy in Vietnam ever since the World Bank announced that 51 percent of Vietnamese households were in poverty according to the 1992-93 living standards measurement survey (LSMS). Alternative definitions, which generally do not account for non-food needs, produced estimates ranging from 19-22 percent, with an apparent gradual decline during 1992-1996.

Box 1: Definitions of the poverty line used in Viet Nam.

1. The hunger poverty line, used by MOLISA, identifies "hungry households" in rice equivalents. An "urban poor household" consumes less than 25kg of rice per capita per month, and rural households less than 20kg in lowland/midland areas, and 15kg in highland areas. MOLISA estimates that households below the poverty line have declined from 22% in 1994, to around 20% in 1995, and to 19% in 1996.

2. The very poor or starvation poverty line, used by GSO, defines hunger poverty by the income needed to secure a minimum daily calorie intake of 2,100 per capita. A monthly per capita income of VND50,000 (1993 prices) identified a rural poverty household, VND30,000 a "very poor" or "starving" rural household, VND70,000 an urban poor and VND70,000 a very poor urban household. GSO also projects VLSS data to estimate that around 19% of households were below the poverty line in 1996.

3. The basic needs poverty line, employed by the World Bank, is based on the 2,100 calorie intake criterion but also makes allowance for non-food basic needs, including education, health care, travel, and cultural expenses. It was estimated that the minimum basket in 1995, would need an **annual income** of VND1.1 million per capita (or US$100 equivalent p.c. per year). For 1995 (based on VLSS 1992/93 survey data), the World Bank estimates that 51% of Vietnam's households were below the poverty line.

Source: UNDP (1998).

A second LSMS was conducted during 1997-98, and preliminary results indicate a remarkable decline in overall poverty in Vietnam. Using the same methodology, it appears that the 51 percent number of 1992/93 is now somewhere around 27 percent[1]. Vietnamese estimates put the population in poverty at around 18-20 percent during 1997-98 (Vietnam Investment Review, 23 May. p.4). The World Bank is planning to produce a new Poverty Report in December 1999, so we can await the details. One interesting

[1] From informal conversations with GSO staff.

question will be how income inequalities have developed: regional, rural-urban, and intra-rural.

Table 1 uses the 1992-93 LSMS data to examine regional differences in poverty. Average household consumption expenditures in the South East (Ho Chi Minh City) were double those of the North Central Coast. The Red River delta is mid-ranking in average expenditures (which are reflected in the basic needs rankings), but has low percentages of "hungry" and "starving" households. This suggests a relatively flat income distribution in the Red River delta, possibly due to land distribution policies. The South East, for example, has a marginally higher percentage of "starving" households.

Table 1: Poverty Households in Rural Areas of Viet Nam by Region, 1992/93 Based on Various Definitions (as % of total rural households in each region)

Major Regions	**Average Household Consumption Expenditures** (VND 000 p.a.)	**Poverty Line ("Hungry") Households** (<VND600 th.) (%)	**Very Poor ("Starving") Households** (<VND360 th.) (%)	**Basic Needs Deficit Households** (<VND 1.1m) (%)
1. North Central Coast	974	26.4	5.1	70.9
2. Northern Uplands	1,007	28.8	5.2	58.6
3. Central Highlands	1,159	34.7	7.7	50.1
4. Red River Delta	1,349	15.9	2.7	49.0
5. South Central Coast	1,457	19.6	4.1	48.5
6. Mekong River Delta	1,506	18.5	5.4	42.7
7. South East	2,008	14.0	3.0	32.8
Vietnam	1,373	22.3	4.4	50.9

Source: UNDP (1998).

Anecdotal evidence suggests that income distributions within urban centres are becoming increasingly skewed as commercial middle and upper classes develop. State employees, including doctors and teachers as well as many public officials and Party cadre, are being left behind as most of the new income opportunities are from trading, and from small-scale production and other service activities. The new LSMS data will reveal greater income inequalities in urban areas and, more importantly, identify the "persistently poor" in rural areas. The trends towards greater inequality are to be expected of a rapidly growing developing economy. The interesting analysis will be on how these trends will develop and influence political and social stability.

Land

Land scarcity appears to be increasing in most regions of the country. An average farm family of five cultivates around one-half hectare of land, with farmers in the Mekong and Central Highlands averaging one hectare. The People's committees have less scope to reallocate land or to find unused land for newly formed families. Families with three or more children (often the poorer families) can no longer expect to receive more land on this account. There are reports of land consolidation (purchase of user rights) by larger commercial farmers (especially in the South), or by developers converting land to industrial, residential or recreational use, though information on the extent of this is not available (UNDP, 1998). A new class of landless families is thus being created, who work for wages on other people's land, who may find off-farm activities, or who join the increasing flow of people seeking work in urban areas.

Table 2: Land Use and Changes in Land Use 1985-94.

	1985		1994		Change 1985 to 1994	
A. Land classification	000 ha	%	000 ha	%	000 ha	% change
Agricultural land	6,942	20.9	7,367	22.2	+425	+6.1
Forestry land	9,642	29.1	9,915	30.0	+273	+2.8
Other land use	16,520	49.8	15,822	48.8	-698	-3.9
Total land area	33,104	100	33,104	100	0	0
B. Agricultural land use	000 ha	%	000 ha	%	000 ha	% change
Rice	4,297	13.0	4,230	12.8	-67	-1.2
Other food crops	1,130	3.4	1,210	3.7	+80	+7.1
Annual industrial crops	1,007	3.0	1,192	3.6	+185	+18.4
Perennial industrial crops	470	1.4	811	2.5	+341	+72.5
Total sown area	6,904	20.9	7,443		+539	+7.8

Source: Choeng Hoy Chung (1997). "Total agricultural land" and "total sown area" are not identical as land classified as agricultural may not be used, and land classified for other purposes may be used for agriculture. Ambiguities can also arise from mixed land uses, such as "agro-forestry."

The strengthening of land-use rights has been one factor "pushing" farmers off land. As of July 1997, agricultural land use certificates had been issued nation-wide to about 43% of farm families, with completion dates for land allocation and certification in most areas announced for late 1997 (UNDP, 1998). There is legitimate concern that land reforms will create a landless and unemployed peasantry that cannot be readily absorbed into other economic activities. The pace of off-farm and urban sector employment growth is crucial to solving this problem. The issue requires more empirical investigation, but it seems unlikely that land reform has been a particularly significant cause of rural-urban migration. More important are the traditional pressures of rural population growth rates and the "pull" factor of rapid urban sector development.

In 1996, at least 2 million rural residents were officially estimated to have migrated to cities looking for work (equal to 7% of the nation's working age population). An estimated 23,000 arrived in Hanoi seeking casual work, compared to an estimated 9,000 in 1992. Ho Chi Minh City reported a rural influx of 700,000 persons in 1996: Six out of seven of whom did not have permanent registration permits, and data do not show how many were seasonal (circular mobility) rather than looking to change permanent residence (UNDP, 1998).

Employment

The early years of economic transition, from 1986 to 1991, saw substantial structural change in Vietnam's labour force. Total State sector employment fell by about 250,000 persons each year during 1989-1991. About 500,000 soldiers were demobilized. Returning worker migrants have added to the supply. The demographic profile aggravated the situation by increasing the number of persons of working age by 3.7 percent per year (39 percent of the Vietnamese population was under 15 years of age in 1990). During this "first phase", the booming household sector absorbed the growing supply of workers. Unemployment and underemployment, while severe, was never at socially dangerous levels. Unemployment was estimated at between 1.9 to 6 million persons.

In the "second phase", beginning around 1992-93, change in the structure of employment was less dramatic. The threat of large-scale unemployment and under-employment remains a serious problem for Vietnam: both in terms of political stability and efficient resource use. The sustained growth of the private household sector has soaked up some of this labour force growth, but the ability of the economy to generate jobs with higher value-added is crucial.

Employment: the first phase

The 1989-91 shedding of workers was mostly due to the collapse of CMEA trade (a market-based shock), and because of a tightening of state enterprise budget constraints during the 1989 stabilisation period (restructuring). At about the same time, however, removal of internal trade barriers and official Decrees supporting the development of the private sector created incentives and opportunities for Vietnam's household businesses. This process a coordinated reform allowed state enterprise employment to fall from 8.7 percent of total employment in 1989 to 6.2 percent in 1991, but without a huge rise in unemployment as the private sector created jobs for 4,369,000 workers.

Table 3: Employment trends by sectors, 1989-91
(thousands of persons)

	1986	1989	1990	1991
Total employed labour force	27,398	28,941	30,294	30,974
State sector	*4,027*	*3,801*	*3,421*	*3,144*
Co-operatives	*19,730*	*19,750*	*20,414*	*18,071*
Private	*3,641*	*5,390*	*6,459*	*9,759*
State enterprises	2,658	2,506	2,180	1,916
Central	*1,278*	*1,188*	*1,091*	*1,018*
Local	*1,380*	*1,318*	*1,089*	*898*
Share of total employment (%)				
State sector	14.7	13.1	11.3	10.2
State enterprises	9.7	8.7	7.2	6.2

Source: World Bank (1995)., *Vietnam: Poverty Assessment and Strategy*. Washington, DC.

The capacity for the private sector to absorb more employment is, however, very limited without further institutional change. Value-added and profit margins in private household activities are very low. Household economic activities are also very competitive, so the scope for once-off household-based employment generation through institutional reforms is limited. The only open avenue is up: the promotion of private small-and-medium enterprises – or what may be better described as the private corporate sector.

Employment: the second phase

Vietnam remains an economy with much of its GDP coming from agriculture, and, as Tables 4 and 5 show, most of its labour force employed in agriculture. The state sector employs only nine percent of Vietnam’s workforce, but that percentage varies considerably across economic sectors. About one-quarter of industry sector workers have been employed by the state throughout 1991-97. In commercial service areas, however, the share of state employment has halved from 26 percent in 1991 to 13 percent in 1997. It has also fallen, but less quickly, in other sectors.

Table 4: Employed population by sectors and employer, 1991 to 1997 (thousands of persons and percent)

	1991	1992	1993	1994	1995	1996	1997 est.
Total	**30,974**	**31,815**	**32,718**	**33,664**	**34,590**	**35,792**	**36,994**
Percent state sector employees	***10.1***	***9.4***	***9.0***	***8.7***	***8.8***	***8.8***	***8.9***
Agriculture, forestry & fisheries	23,122	23,160	23,425	23,565	24,106	24,776	25,444
Percent state sector employees	*1.7*	*1.5*	*1.4*	*1.3*	*1.2*	*1.0*	*1.0*
Industry	3,736	3,847	4,140	4,326	4,493	4,629	4,634
Percent state sector employees	*27*	*25*	*24*	*23*	*23*	*23*	*25*
Trade, transport, hotels, services	2,485	2,833	3,033	3,363	3,493	3,773	4,291
Percent state sector employees	*26*	*21*	*18*	*16*	*15*	*15*	*13*
Health and education	1,010	1,094	1,143	1,218	1,259	1,287	1,295
Percent state sector employees	*85*	*75*	*73*	*68*	*69*	*71*	*72*
Others	623	881	975	1,191	1,238	1,327	1,334
Percent state sector employees	*41*	*30*	*27*	*23*	*25*	*24*	*27*

Sources: MOLISA, (1997)., *Statistical Yearbook of Labour-Invalids and Social Affairs, 1996*. Statistical Publishing House, Hanoi [for data to 1994].
GSO (1998)., *Vietnam Statistical Yearbook*. Statistical Publishing House, Hanoi [1995-97 data].

Despite the slowly falling share of total employment, the number of persons in the state sector has risen during 1991-97. The workforce increased by 6 million persons during 1991-97, of whom the state sector absorbed 155,000 (3 percent), and the non-state sector the remaining 5,865,000 – mostly in agriculture (2 million), but also in industry (898,000), trade (1.38 million), and across most other sectors.

Table 5: Employed population by sectors and employer. 1991 and 1997 (thousands of persons)

	Total employment		State sector employment	
	1991	1997 est.	1991	1997 (est.)
Total	**30,974**	**36,994**	**3,136**	**3,291**
Agriculture and forestry	22,841	24,814	371	243
Fishery	281	630	12	9
Industry	3,736	4,634	999	1,160
Of which:				
Mining	*325*	*211*	*89*	*99*
Manufacturing	*2,727*	*3,293*	*560*	*672*
Electricity, gas and water supply	*104*	*153*	*48*	*61*
Construction	*579*	*977*	*302*	*328*
Wholesale and retail trade, repairing.	1,292	2,672	278	209
Hotels and restaurants	519	519	44	45
Transport, storage and communication	533	856	191	208
Finance, credit	73	126	74	52
Science and technology	45	41	45	33
Property business and consulting services	23	77	14	31
State management, defense and social security*	295	411	144	252
Training and Education	770	999	674	768
Health and social work	240	296	186	170
Culture and sporting activities	56	96	28	33
Activities of party, mass organisations	82	100	57	59
Activities of personal and public service	135	595	24	19
Others**	55	132	0	0

Source: GSO 1998.
* The total employment data for "State Management, Defense, and Social Security" differs between sources. MOLISA (1997, p.35) data is reported to 1995, and GSO (1998) thereafter. These two sources overlap in reporting 1995 data for this sector. MOLISA reports 307,200 persons, while GSO report 392,500 persons. Similar changes in the data for "Activities of Party and Mass Organisations" account for the difference, so it would seem that some employment groups under the latter heading are now counted as state employees.
** What MOLISA (1997) describes as "others" [data to 1994] is explained as mostly as "Private households with employed persons" by the GSO (1998).

In terms of employment, therefore, the state sector has been stagnating. This is despite priority still being given to state sector development, and a reported rising state sector share of GDP in recent years (Table 6). The state sector and its enterprises, even with protection and access to state funds, foreign investment, land, and bank credit has failed to produce jobs.

Table 6: GDP by ownership (US$ and percentages)

	US$millions*			Percentage shares	
	1995	1996	1997 est.	1995	1997 est.
Total	**20,076**	**22,488**	**22,855**	***100***	***100***
State	7,535	8,574	8,887	*37.5*	*38.1*
Household	7,547	8,280	8,309	*37.6*	*36.8*
Collective	2,168	2,301	2,217	*10.8*	*10.2*
Private	615	751	791	*3.1*	*3.3*
Mixed	888	948	983	*4.4*	*4.2*
Foreign invested sector	1,321	1,634	1,709	*6.6*	*7.3*
(dong per US$)	*(11,100)*	*(11,500)*	*(12,938)*		

Sources: GSO (1998)., *Vietnam Statistical Yearbook*. Statistical Publishing House, Hanoi
World Bank (1998)., Vietnam: Rising to the challenge. Hanoi. [exchange rate data].
* Current GDP data divided by average exchange rate.

Vietnam faces an imperative to create jobs. To remove biases towards capital-intesive development, reform and privatise state enterprises, and strengthen competition and markets. A set of policy reforms, for example, that enable the private corporate sector to develop and to openly compete with state enterprises would precipitate a bout of employment-creating restructuring. So would policies that enable state enterprises and state Corporations to compete more against each other. Such a package would have the potential to increase overall employment, even if unemployment-creating state enterprise restructuring was actively pursued.

Social Protection Systems

Vietnam's system of social security is best understood under a dualistic model that classifies persons and households into the formal or informal sector. "Informal" in this sense means outside of the official structures of government designed social security mechanisms (pensions, unions, health insurance, etc.). Such households rely on village-level income transfers and other policies, and on extended family and community networks. Most "formal welfare system" households are employed in the state sector, but not all. For example, larger non-state enterprises come under the scope of the Labour Code.

Social protection through "informal" mechanisms

Land distribution in the Red River Delta has traditionally been used as a mechanism to ensure the basic needs of the population (Van de Walle, 1998). Markets and the strengthening of property rights are gradually undermining this use of land distribution as a "social safety net". Use of land as loan collateral has led to foreclosures. Extended family and village networks of informal social security have also come under pressure, particularly as labour mobility has increased. In short, a more efficient use of factors of production is undermining existing social security mechanisms.

The solution is not to weaken factor markets, but to develop financial alternatives to social security mechanisms which operated under planning (land allocation, payment in kind). The Government has emphasized the need for "community solidarity funds" to be raised to finance its poverty alleviation and hunger eradication campaign. Scholarships and subsidies are provided for "poor households" to access health and education services. Financial decentralisation has accompanied these initiatives. Communes can collect land taxes, production taxes, water charges, electricity charges, road building contributions, school and health clinic maintenance fees, charges for people's committee salaries and administration expenses, and numerous other levies. In many localities, this appears to have resulted in greater popular awareness and involvement in local government and administration (UNDP 1998).

Extended family associations have always existed as important mutual assistance networks in Viet Nam, and appear to be still flourishing. The networks can be quite small, just a few related families, or they can be quite large, including relatives overseas. They function as sources of informal credit; they provide connections in finding jobs or interceding with the authorities; they can offer support to individuals or whole families when traveling or migrating; they help care for children and assist elderly relatives; and they serve as information networks on business opportunities, potential marriage partners, scholarships and educational opportunities. The family networks provide a multi-purpose safety net, and greatly extend the range of choice and the possibilities for social and economic advancement for all those who are recognized as "members in good standing."

Voluntary community organizations have also been encouraged to develop with financial and technical support from government and donor agencies, outreach activities of the Women's Union, the Peasant's Association, the Youth Union, the Veteran's Association, and the Fatherland Front have greatly expanded. Special purpose cooperatives, savings and credit circles, charitable agencies targeting specific disadvantaged groups, environmental awareness groups, extensions of parent-teacher associations, medical volunteers, and literacy-improving groups are examples of the range of new associations coming into existence.

Social protection for "formal" sector employees

The revised 1992 Constitution of the Socialist Republic of Vietnam laid the foundation for the formulation of a new Labour Code, which came into effect on 1 January, 1995. The Labour Code and a long list of implementing decrees and regulations amount to a very comprehensive regulatory framework for the state management of the labour market. The authority of employee unions was clarified and strengthened under the Labour Code. It also specifies Vietnam's formal system of social security.

Health care, retirement, housing, child-care, education and other benefits have traditionally been linked to state enterprises. Under the Labour Code, many of the same links are being established within the larger non-state enterprises (with ten or more employees). This linkage is of concern for several reasons:

- there is a need to address the needs of workers in these other sectors as well;
- such linkages make it more difficult to restructure state enterprises when this would imply the need to reduce excess labour;
- such linkages interfere with the ability of workers to take advantage of alternative employment opportunities and with the general development of flexible labour markets.

Social insurance

The social insurance system is funded by obligatory payment of social insurance premiums by the employer (15% of the wage fund) and the employee (5% of the wage) in all enterprises with ten or more employees. For all other arrangements involving hired labour, the social insurance allowances shall be included in the salary paid by the labour user so that the worker can join a social insurance scheme of his choice or look after his own insurance.

The social insurance fund provides pensions for workers as well as benefits for childbirth, sickness, disabilities related to work-related accidents or occupational diseases. Workers become eligible for pensions at the age of 60 for men and 55 for women if they have paid social insurance premiums for at least 15 years. The benefit is equal to 45% of the salary earned in the past 5 years with an additional 2% payable for every additional year worked (up to 30 years). The maximum pension is therefore 75% of the salary in the past five years. More favourable pension benefits are available to the disabled and to those in especially heavy or noxious jobs[2].

Workers not qualified for pensions but who have had contributions to the system are entitled to a onetime payment set by Government, currently one month of salary for each year of contributions.[3] Some 146,000 of the 236,000 retirees receiving benefits in 1996 were handled with lump sum payments.

The coverage of the social insurance system is limited by the unwillingness of many employers and employees to make the required payments. Such payments can be legally avoided if the employment is in enterprises or operations with less than 10 employees, a category that accounts for the vast majority of enterprises in agriculture, fisheries and private sector operations in all other sectors of the economy. It is estimated that the vast majority of workers - 30 million out of a workforce of 37 million - fail to

[2] Workers with 61% disability (in heavy or noxious jobs) can get pension benefits 10 years earlier (at any age) if they have had 20 years of contributions.

[3] The monthly salary is calculated as the average of the past five years of employment

pay insurance.[4] In 1995, the turnover on Social Insurance premiums was US$315 million [5].

There are important issues that need to be addressed with respect to the social insurance system. Two are of particular importance:

- the level of benefits and financial viability of the social insurance fund;
- the effect on labour mobility and the growth in employment opportunities, particularly on the expansion and growth of small private sector firms.

A sound social security system should be financially sustainable over the long run without becoming a drain on budgetary resources. Even though the Government is covering the costs of the benefits provided to state workers with qualifying years of employment prior to the start of contributions, the long-term financial viability of the existing social security system needs further examination for several reasons:

- The levels of benefits relative to contributions are claimed to be generous by Asian standards, more comparable to developed countries such as Canada and the United States[6].

- The system is vulnerable when the average wage over the past five years is well above the average wages during which payments into the system were collected (or would have been collected given the coverage being provided to workers based on years worked prior to the introduction of the system).

- The system is vulnerable when payments can be claimed in circumstances that may be difficult or costly to control (as, for example, with sickness allowances to be paid by the social insurance fund on the basis of a doctor's certification).

- The surplus funds now being accumulated are deposited with state banks at a very low interest rate of 0.3% per month[7].

Without nation-wide coverage, the social security system can become a substantial barrier to labour mobility. And as with any factor of production, allowing workers to move from less productive to more productive employment is an important ingredient in making markets efficient and the economy strong. Workers, however, are unlikely to move to another enterprise if they are unable to transfer pension rights and other benefits. Labour mobility between the state and non-state sectors is considerably

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[4] Vietnam Investment Review, Issue 277, March 2, 1997.

[5] NQH & Associates, (1997)., Preliminary Report on Health and Personal Line Insurance Market Survey in Vietnam. Unpublished, April, p.137.

[6] OECD (1996)., Labour market aspects of State Enterprise reform in Viet Nam. Technical Paper No. 117, Paris, p. 34.

[7] Molisa interview.

constrained by the lack of a universal social insurance system.

Many of the problems with the social insurance system would be greatly moderated;

- if the system was based more directly on past contributions; and
- if the rights to these pension funds were fully vested with the worker.

This would solve both the financial viability and constraint on labour mobility problem.

Social insurance accounts could be set up based on these contributions. If the individual moved out of a job covered by the social insurance system, the worker would still retain a claim on the funds accumulated in this account at the time of his retirement. Contributions up to 20% percent of wages could still be invested in the fund if the worker were employed in a firm with less than ten workers. This would eliminate the disincentive to leave jobs in covered sectors of the economy for fear of loosing all benefits (if the worker left prior to having been covered for 15 years) or having to take a lump sum payment rather than a pension if the worker left prior to reaching retirement age.

This would also eliminate some of incentive of new workers unlikely to reach the prescribed 15 eligibility requirement and their prospective employees from entering the system, by evasion of the regulations or by remaining a small enterprise with less than 10 employees.

If progress can be made in developing a sound financial system, much of the benefits from pensions would arise due to positive returns to saving in the pension accounts. This would also give ordinary Vietnamese a strong self interest in the development of such a system.

Health insurance

The Compulsory Health Insurance System (CHIS), like the Social Insurance Scheme, is an attempt to provide a universal "safety net" for workers with a large part of the costs shifted to enterprises. Both systems require contributions from workers to be matched by employers. Both are intended to be nation-wide and have transferable coverage, although in practice there are many problems achieving this.

The problems with the system result from the poor quality of service and/or the reluctance of health facilities to provide services. In particular;

- Health Insurance (HI) beneficiaries can only claim for locally provided services. Reimbursement for health services is presently city or province-specific. That is, for example, a worker from Hanoi cannot claim for health expenses incurred in Ho Chi Minh City.

- HI beneficiaries cannot easily choose the health facility they want as the provincial Health Insurance Authority (HIA) often has a private deal to send all its beneficiaries to a specific health facility which, consequently, tend to be overcrowded.

- The HIA holds hospitals and their personnel responsible for wrong medical acts. The HIA pays only for a specified list of medicines and services at fixed prices. Hospital management sometimes make medical personnel pay if they over-prescribe medicines to HI patients. Consequently, medical personnel are reluctant to deal with HI patients.

- Payments to service providers by the HIA are slow and inefficient. Disputes, delays, and refusals to pay certain items undermine hospital care of CHIS patients.

Although it is intended to be a universal health system, these problems result in a very limited coverage.

It needs to be appreciated that regulatory control of enterprises in Vietnam is very weak. If an enterprise, even a state enterprise, does not see distinct advantages from joining such systems then often they can avoid doing so. Further, at the central level, record keeping and research are so weak that knowledge about the extent and nature of coverage is vague. The CHI system appears to cover only 10 percent of the population, and expansion is slow because both the service providers and those covered are dissatisfied. Even people with CHI cards avoid using them if they afford to. A 1996 survey of 100 enterprises paying CHI found that 80 of them considered CHI "inefficient and did not know the rates and conditions of compensation...", and 70 "were willing to buy complementary health insurance if premiums were reasonable.." (NQH, p.121).

CHI premiums are equal to 3 percent of the gross salaries of workers in enterprises covered by the system. One percent, in theory, comes from the workers and the other two- percent is contributed by the enterprise. In practice, enterprises often pay the full 3 percent. In 1995, CHI premiums totaled only US$36.5 million, and claims paid totaled US$28.6 million (NQH, p,110). Consequently, CHI provided only 11 percent of public health revenues in 1995.Given the problems of the CHI system, it is not surprising that Ministries and some state enterprises still maintain their own health facilities. Further, the oil and gas, coal, rubber, the road and transport sector, and the Ministry of Defense all operate their own private health insurance networks (NQH, p.69).

It is difficult to develop a system in which costs are shifted to firms for a system that does not provide value commensurate with its costs. The attempt to force such a system on enterprises is likely to be another discouragement to investment and growth in such enterprises. It would be more realistic to finance costs of public health programs through a tax system that would subsidize health care for low-income groups without access to higher quality alternatives. Participation in the CHI system might best be voluntary, an outcome of negotiations between enterprises, workers and their unions. Efforts could be made to improve the attractiveness of the CHI, perhaps by including private providers of health services within the system. A low fee per service visit paid directly by the patient would also help to cover costs and discourage excessive claims on the system where expected benefits are low. Competition from other health insurance schemes should also be allowed and encouraged.

Health and Education

A reported literacy rate of 85 percent puts Vietnam on a par with Thailand and above most low-income Asian countries, in literacy. Some health indicators are also, overall, higher than for countries like Bangladesh, India and Indonesia (Table 7).

Table 7: Social Sector Indicators, Vietnam and Other Countries.

	Vietnam	Indonesia	Thailand	China
Human Development Index (HDI), 1993	0.523	0.641	0.832	0.609
GDP per Capita at PPP*, 1993	1,040	3,270	6,350	2,330
Life expectancy at birth, 1993	65.5	63	69.2	68.6
Average calorie supply, 1992 (per day)	2,250	2,755	2,443	2,729
Adult literacy rate, 1993 (%)	92.5	82.9	93.6	80
Years of schooling, 1985 (average)	3.2	3.1	3.5	4.8
Enrollment rates, 1988-90: Primary & Secondary	69	84	58	83
Primary drop-out rate, 1985-87	50	20	36	32
Educational attainment index	57.3	48.9	61.6	47.1
HDI rank (out of 174 countries)	121	102	52	108
Real GDP rank (out of 174 countries)	148	89	49	111

* PPP refers to a Purchasing Power Parity index that attempts to measure the “real” purchasing power of nominal incomes across countries. 1989 PPP per capita for Myanmar, Bangladesh and India were US$595, US$820 and US$910 respectively.

Source: GSO 1998; UNDP Human Development Report, 1996.

During the transition, however, there was a reported decline in health and education services (World Bank 1993:170). The early years of transition put public services particularly those in rural areas, under enormous pressure. Non-monetary incomes were abolished (such as payment in rice), and the newly monetised salaries failed to keep pace with inflation. A medical doctor was receiving only the equivalent of about US$18 per month in the early 1990s. Teachers were similarly hit. In the 1991-92 academic year, 20 percent of teachers quit their jobs or retired (Vietnam Investment Review 13/9/92). Further, the number of pupils undertaking primary education declined as opportunity costs increased and parents withdrew them to work on the land or in household production.

The fall in official wages and salaries has led to the institutionalization of inefficient work practices throughout the public sector. Routine permissions and information must be purchased, doctors sell their medicines and neglect preventative health care, and teachers use school time to undertake second jobs. Salaries are generally regarded as retainers, with actual work often requiring additional payments. The transaction costs and efficiency losses of this incentive structure are substantial. The inability of the government to meet recurrent expenditures has reduced the availability of low cost services. The growth of private sector activities have filled the gap for middle and upper urban income groups, but services for low income groups have declined without a commensurate improvement in employment in a burgeoning economy.

Table 8 shows various indicators of the health and education sector decline, until about 1992-93, when increased government spending, development assistance, and selective policy liberalisation reversed the declines. The number of grade school teachers had been declining since 1988-89, but so did the numbers of students. The number of grade school students fell by 8 percent to 11.7 million during 1987-1990. Numbers of both students and teachers picked up again in the 1990s (the number of secondary school students did not rise until 1992-93). The teacher:student ratio had therefore been somewhat steady at 1:27, but has subsequently risen to 1:31 in 1987-88. The number of kindergarten teachers had stagnated until recent years, when liberalisation (private kindergartens) prompted a boom in teacher numbers and schools.

Table 8: Health and Education Indicators for Vietnam, 1990-1998.

Year:	*1990-91*	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*	*1996-97*	*1997-98*
No. of kindergarten teachers		69.8	69.3	66.3	69.3	75	84.4	94.9
No. of grade school teachers	435	424	427	446	467	493	521	551
No. of grade school children	11,883	12,344	12,911	13,653	14,529	15,561	16,348	17,074
% of population attending grade school	*17.9*	*18.3*	*18.5*	*19.1*	*20.1*	*21*	*21.7*	*22.3*
Year:	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
Population of Vietnam	66,233	67,774	69,405	71,026	72,510	73,962	75,355	76,710
No. of doctors	23.3	25.9	27.4	28.5	29.7	30.6	31.9	32.9
No. of nurses			55.2	53.7	50.8	47.6	45.8	46.2
No. of hospital beds	205	206	198	195	191	192	197	198

Sources: GSO 1998, Tran Hong Kim 1996.

Health data shows a less clear picture of slump and recovery. Although the numbers of doctors have increased each year, the numbers of nurses has fallen sharply. The number of hospital beds shows an increase since 1994 (after falling steadily from 224,000 beds in 1987), but this and other aggregate data disguise other trends. For example, although the number of hospital beds was 198,000 in both 1992 and 1997, the number of these in rural areas had fallen from 69,600 to 63,800. The slump in health services, particularly in rural areas, may be continuing, but this is not reflected as a priority concern in the central government budget.

Central budget education expenditures rose steadily as a percentage of GDP from one percent in 1991 to about 2.4 percent in 1997. Health sector expenditure trends have been less consistent: rising from 0.8 percent of GDP in 1991 to 1.3 percent in 1994, but subsequently dropping to about one percent of GDP (World Bank 1998b, p.97). These education and health sector shares are still low by international standards. The increases have not compensated for substantial falls in local government funding during transition. Further, expenditures are inequitably targeted in favour of urban areas.

Prior to transition, Vietnam's basic education and health services were commendable for a country with such a low level of development. One consequence, were human development indicators on par or better than richer neighbouring countries, even in the early 1990s. The first years of transition, however, placed Vietnam's education and health services under extreme pressure. Transition essentially "privatized" many aspects of social assistance which citizens previously looked to government to provide. User fees are now charged for education, health care, child care (crèches and pre-school centres), and levies are made for many other types of community services. Rural areas suffered the most. The education sector is now recovering, but the health sector, aside from user-pays services for the urban elite, remains in relative crisis.

Conclusion

Vietnam's transition is undoubtedly one of success. Incomes have risen, poverty fallen, and farmers have gained. That success, however, is largely due to the failure to implement central planning in depth after 1976. Further, the fact that Vietnam is a poor developing country, with largely unprocessed agricultural exports, and a labour force willing and able to work at wages slightly above subsistence, makes it very different from most transitional economies.

Structural transformation of Vietnam's "residual element" of central planning was therefore achieved during the first decade of transition without dramatic J-curve effects, with the exception of industrial production for a couple of years. It seems, however, that social services and support systems also experienced a slump and gradual recovery.

The collapse of subsidies and in-kind payments from the planning system was not immediately replaced by monetary equivalents, which were constantly eroded by high inflation until about 1992. Teachers left schools, and increasing opportunity costs saw student dropout rates rise. Health services declined, particularly in rural areas. Recovery since 1992 has been evident but incomplete. Education services have improved markedly. There are still teacher shortages, but dropout rates have fallen, and government funding of the sector has risen. Government funding of health services has been less generous. *De facto* privatisation of education and health services has allowed services to increase in line with rising household incomes. Those in poverty, however, may still access health and education services worse than in 1985.

Informal and formal social security systems have also come under pressure to adapt to a more market-based economy. Increased factor mobility, of land use and workers, has undermined traditional systems of welfare support. Extended family ties have been important through this transitional phase, as welfare systems become monetised and community organisations develop. The formal social security system has seen less change. The Labour Code was essentially an attempt to expand the existing system to cover the non-state sector. It did not address the fundamental design and delivery problems that make it financially unsustainable and an obstacle to labour mobility. Health insurance remains in crisis.

The social consequences of transition have been overwhelmingly favourable. Increased income inequality is the only discernible negative phenomena, but even that may be more attributable to a rapidly growing developing economy than a transitional one, as such. Transition has, however, placed social sector services and welfare systems under pressure to change. This process of change saw deterioration in education and health services which is now being reversed.

The future prospects remain bright, so long as incomes continue to rise and jobs are created. The specter of a steady rise in the numbers of unemployed remains. Rural-urban migration is increasing. This “employment imperative” is not being addressed through policies promoting capital-intensive import substitutes, or by ongoing protection of the state enterprise sector. Development of a private corporate sector is painfully slow, yet it is the prerequisite for sustained long-term development, and hence on the ability to generate increasing levels of income transfers to achieve welfare goals.

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