

CHAPTER 6

Is Inequality Rising in Vietnam? Perceptions and Empirics

Inequality is examined through two lenses—a qualitative study of perceptions of inequality and a quantitative analysis. The chapter documents widespread concerns across the population about rising inequality. The qualitative study draws on rich focus group discussions that describe which inequalities are viewed as unacceptable in the eyes of Vietnamese people and captures less easily measured inequalities, such as inequalities in connections, voice, and influence. The quantitative analysis examines the factors driving the rise in inequality, including geographic variations in growth processes, growth in the nonagriculture sector, and disparities in education and ethnic identity. Rising inequality is linked to growth processes in the service sector and industry that have left some groups and regions behind.

Over the last two decades, Vietnam has undergone rapid growth, substantial poverty reduction, and economic transformation. Unlike other fast-growing economies, such as China and Indonesia, past empirical work suggests that Vietnam's extraordinary economic transformation has been one of growth without an appreciable rise in inequality, a path similar to that of the Republic of Korea and Taiwan, China, during their early stages of development (ADB 2012; McCaig, Benjamin, and Brandt 2009; VASS 2011; World Bank 2009). Commonly used measures of inequality suggest that inequality in Vietnam rose modestly during the 1990s and stabilized during the 2000s.

Recent studies, including a major report on poverty prepared in 2010 by the Vietnamese Academy of Social Sciences, note that relatively modest changes in empirical measures of inequality based on household surveys stand in sharp contrast to the widely shared perception among Vietnamese people that inequality in incomes and wealth is rising (VASS 2011). The perception of rising inequality is also notable in the press, among policy makers, and among academics in Vietnam.

This chapter examines inequality through two lenses: a qualitative study of “perceptions of inequality” (Hoang et al. 2012) and a quantitative

analysis that builds on lessons from the qualitative assessment. Examining inequality using both quantitative and qualitative tools gives a richer picture of the inequalities in outcomes, opportunities, and social and political capital among Vietnamese people. Inequality in outcomes refers to inequalities in income, consumption, and wealth, while inequality in opportunities refers to differences in human capital driven by circumstances such as gender, ethnicity, location, or parental characteristics. Inequality in social and political capital refers to differences among individuals measured in terms of connections, voice, and influence.

The perceptions study helps to identify which types of inequalities are tolerated and which are viewed as unacceptable in the eyes of Vietnamese people; it also captures inequalities that are difficult to measure in quantitative analysis, such as inequalities in connections, voice, and influence. The quantitative assessment focuses on measuring changes in the distribution of outcomes and opportunities over time and on understanding the drivers of these changes using data from household surveys, including various rounds of the Vietnam Household Living Standards Survey (VHLSS).

The perceptions study suggests that Vietnamese people from all backgrounds—rural and urban, rich and poor—think that inequality has risen substantially over the last five years. Focus group participants rarely discussed income or expenditure inequality in isolation, but instead linked it to determinants—notably inequalities in education, access to good employment opportunities, access to land, and connections, power, and influence. As such, inequality in access to employment was seen as a consequence of inequality in access to education, and inequality in employment was then linked to inequalities in income, expenditures, and wealth. Inequalities in power and connections were perceived as increasingly important in determining access to jobs (transforming education into employment) or maintaining land rights. Despite the perception that inequalities in income and wealth are rising, the majority of respondents considered inequality in outcomes to be acceptable as long as it is generated through fair and legitimate means. The tolerance for income inequality is a major shift in public attitudes from Vietnam's prereform period.

Empirical evidence on inequality from the 2010 round of the VHLSS suggests a modest rise in income inequality, driven primarily by growth in rural areas, where income from higher-value sideline activities and sources of nonagricultural income has been rising among better-off households. The rise in income inequality reflects, in part, growth processes that have altered the relative return to assets such as education and productive capital in the economy. As such, the empirical analysis suggests that growth has interacted with existing inequalities in opportunities—inequalities in education, patterns of social exclusion between ethnic minorities and the majority, access to good jobs, and geographic disparities—to increase income inequality and income gaps between rich and poor households.

Why are we concerned about inequality?

Should policy makers be concerned about rising inequality in income or expenditures? Whether inequality in outcomes is likely to be a concern depends, in part, on the drivers and processes that generate the inequality. It is useful to distinguish between “good” and “bad” processes and the subsequent inequality created. “Good” processes and inequalities are those that reward effort and hard work, reflect incentives to innovate, stimulate entrepreneurship, and provide the impetus for economic growth.¹ “Bad” processes and inequalities are those that prevent certain segments of the population from benefiting from growth processes and from transitioning out of poverty and low-income-generating activities.² These inequalities often reflect unequal opportunities for children born into certain circumstances, such as ethnicity, location, income or education level of the parents, or gender (Roemer 2011). They also reflect inequalities in connections, voice, and influence, where people from different backgrounds face different chances of getting into a good university, acquiring a well-paying job, or of converting land because of their background or circumstances. It is these second drivers of inequality—linked to inequalities in opportunity and process—that are most likely to damage growth, foster social exclusion, and breed societal tolerance for inequality in income and wealth (World Bank 2006).

The evidence suggests that the rise in income inequality in Vietnam since the mid-2000s is the result of both “good” and “bad” processes. While a substantial fraction of the population has contributed to the growth processes and has benefited from growth, inequalities in opportunities continue to repeat themselves across generations, and there is a growing sense of unfairness in processes such as how access to public services is gained, how jobs are acquired in the public sector, and how land conversions occur.

The perceptions study provides us with a unique depiction of “good” and “bad” types of inequality as seen through the eyes of Vietnamese people from a variety of backgrounds, including young and old, rural migrants and long-term urban residents, workers in the informal sector and higher-paid employees in the formal sector, and minority populations and poorer individuals more generally, particularly living in rural areas. In the perceptions study, focus group participants were asked to categorize which forms of inequality they considered more or less acceptable and to explain their views.

Study respondents largely viewed rising income inequality as acceptable if it is associated with market-orientated growth-generating processes that reward education, skills, hard work, and talent. The acceptability of inequality of incomes generated through legitimate means across all demographic and socioeconomic groups constitutes a major shift in public atti-

tudes toward inequality, away from the previous focus on egalitarianism and toward market-based mechanisms and incentives. As two interviewees explained,

Disparity and competition are natural in a market-orientated economy. If you are talented, you can be rich. (Group of elder persons, Me Tri Commune, Hanoi)

Those who have talent and luck are conditioned to succeed. Those who have none just suffer. I heard no complaint about inequalities. Such is reasonable. (Village officials group, Cam Hung Commune, Hai Duong)

The empirical evidence also suggests that inequalities generated by reforms and structural transformation partly reflect “good” processes that are associated with economic momentum and enhanced economic incentives. Since the *Doi Moi* reforms began in 1986, Vietnam has witnessed a rapid economic transformation that has harnessed the power of market incentives to foster rapid economic growth alongside strong poverty reduction. The rise in income inequality partly reflects the process of structural transformation that has occurred since the reforms, which have shifted labor away from agriculture and into the manufacturing and service sectors where value added per worker is higher.³ The inequalities generated through these growth processes are inevitable in the sense that they are associated with a positive momentum in the economy and are likely to encourage growth.

However, not all of the forces driving income inequality are perceived as “fair.” For example, inequalities in connections, voice, and influence are perceived to be unfair and to be rising. Whether inequality in outcomes is viewed as acceptable or not depends more on the process by which the inequality is generated than on the level of disparity. Study participants widely accepted inequality in outcomes if the income or expenditure was generated through processes or sources that were perceived to be fair, while they considered inequalities generated through illegitimate practices to be unacceptable. For example, inequalities arising from differences in education, capital, hard work, honest business practices, and luck were seen as acceptable, while those generated through the illegitimate use of power or influence were not. As some respondents explained,

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. (Youth group, Chieng Khoa Commune, Son La)

Without [unfair] power and connections the directors just differ from the workers by some coefficient of basic salary. Because they

have power and information, holding important positions, doing businesses, they have used this to become much richer. (Long-term migrant group, An Son Ward, Tam Ky City, Quang Nam)

Inequalities in opportunities imply that current differences in incomes will be perpetuated in future generations unless the intergenerational links are broken. Therefore, the inequalities currently seen in labor markets are likely to replicate themselves in the children of those who are unable to take advantage of growth processes and may result in groups that are already disproportionately poor falling even further behind. Although inequalities in educational attainment have narrowed in recent years, particularly at the primary level, the educational attainment of children from poor rural households remains low, particularly in some regions of the country (chapter 3), and the characteristics of the family a child is born into continue to be a strong predictor of whether a child acquires secondary education and beyond. Therefore, the inequalities currently seen in income and wealth are likely to replicate themselves in the children of those who are unable to take advantage of growth processes, resulting in the intergenerational transmission of poverty and well-being.

Is inequality of outcomes rising?

Past empirical work suggests that Vietnam's two-decade period of rapid growth has not been accompanied by an appreciable rise in inequality. The Gini coefficient of income inequality remained fairly stable in the early 2000s (McCaig, Benjamin, and Brandt 2009), and expenditure inequality did not rise appreciably at the national level (VASS 2011). According to a 2010 study led by a team from the Vietnamese Academy of Social Sciences (VASS), the Gini coefficient of expenditure inequality increased from 0.33 to 0.35 between 1993 and 2002, but remained fairly stable between 2002 and 2008 (VASS 2011).

Based on several commonly used measures of inequality, empirical work done for this study suggests that income inequality has risen modestly since 2004, while inequality in expenditures remained stable between 2004 and 2010. Findings from the perceptions study are, however, somewhat at odds with the empirical picture of inequality emerging from the 2010 VHLSS. The perceptions study finds that inequality in outcomes is widely perceived to have risen over the last five years in both urban and rural areas. This section looks briefly at the source of some of these discrepancies.

Focus group respondents in both urban and rural areas reported that they perceive inequality in outcomes—typically defined using income, but also including spending on consumer durables and assets—to have risen and significantly in urban areas since 2005.

Perceptions of inequality were often, but not always, rooted in direct life experiences and varied across groups according to socioeconomic char-

acteristics. Individuals tended first to compare themselves with others in their community and then to compare themselves with slightly better-off individuals or places. For example, low-skilled workers in Hai Duong and Ho Chi Minh City compared themselves with higher-skilled workers, and individuals living in peri-urban areas in Hai Duong, Hanoi, and Da Nang compared themselves with people living in inner-city areas. Those living in urban environments tended to have broader frames of reference, and in these areas disparities relating to conspicuous consumption (automobiles, high-end cell phones, large houses) were noted, in particular.

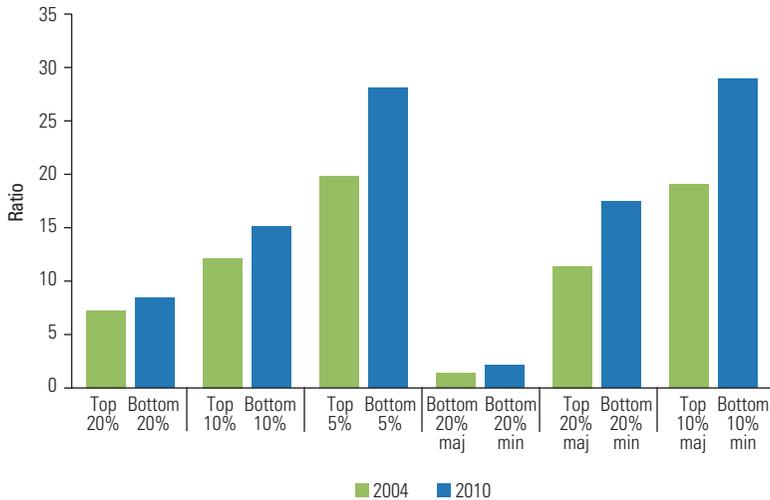
Some focus groups in more remote and difficult rural areas were less comfortable discussing inequality of outcomes within their own community than inequality within society, potentially due to unease in singling out differences in closely knit communities sharing common disadvantages of location, agricultural livelihoods, social and political capital, and other ethnic specifications. Participants in these focus groups appeared to be more at ease, however, when discussing inequalities beyond their community and, in particular, inequalities in connections, voice, and influence.

Focus groups consisting of less educated individuals from poorer households considered disparities related to substantially wealthier groups as being less important for their lives and showed limited interest in comparing their situation with others in more favorable circumstances. For example, one member of the migrant focus group in Da Nang said,

I feel it is okay. I do not spend much, and my earning is sufficient for my living. My life might not be as good as theirs, but I spend to my liking and do not want to compare myself with others.

The empirical evidence suggests that income inequality has been rising at the national level in Vietnam, albeit modestly. Figure 6.1 shows the ratio of mean per capita income of the top and bottom quintile, decile, and vign-tile of the income distribution. Although all groups saw substantial growth between 2004 and 2010, the unevenness of growth implies that the ratio of mean per capita income of the top 20 percent relative to the bottom 20 percent (referred to recently by the General Statistics Office as the “rich-poor gap”) increased from just over 7.0 to 8.5. Similar tendencies are seen across other income quintiles, and the disparities grow as one narrows in on the very poorest and very richest households.

Ethnic minorities are being increasingly left behind in these growth processes. The last three groups of bars on figure 6.1 show that average income and growth of the bottom 20 and 10 percent of the ethnic minority distribution were lower than those of the majority population in 2004–10. Moreover, the top 20 percent of the majority population earned 11.4 times what was earned by the bottom 20 percent of minorities in 2004 and 17.5 times what was earned in 2010. In comparison, when we look at the entire population, the ratio of incomes among the top to bottom 20 percent rose

FIGURE 6.1 Ratio of mean per capita income in Vietnam, by percentile, 2004–10

Sources: 2004, 2010 VHLSS.

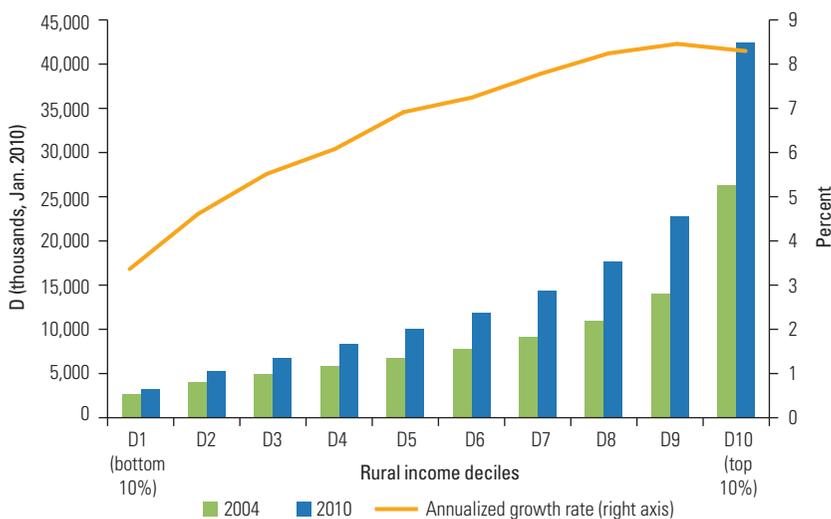
Note: maj = majority; min = minority.

from 7.2 in 2004 to 8.4 in 2010. This confirms that ethnic minorities are increasingly overrepresented among the poor. The gap between minorities and the rest of the population is rising. The ratio of income earned by the bottom 20 percent of majorities relative to the bottom 20 percent of the minority population also increased during this period, from 1.4 to 2.1. This may reflect, in part, the predominance of agriculture as a major source of income among minorities and poorer households (see chapter 5).

The rural sector has been the driving force behind the recent rise in income inequality. Figure 6.2 shows the growth incidence curve for income by per capita income decile in rural areas. Growth in rural areas has been far higher among richer households than among poorer households; growth in the poorest 10 percent of households was less than half that seen in the richest 10 percent of households, and the ratio of income consumed by the top income decile to that consumed by the bottom income decile increased 25 percent between 2004 and 2010. For the first time since VHLSS data started being collected, the Gini coefficient of income inequality is now of a similar magnitude in urban and rural areas. The Gini coefficient of income inequality in rural areas rose from 0.365 in 2004 to 0.413 in 2010, while it remained stable in urban areas over the same period, at approximately 0.381.⁴

The contribution of differences in mean income between rural and urban areas and between provinces to explaining overall inequality has declined over time. The Theil index of inequality can be decomposed into five components: (a) differences in mean income between rural and urban

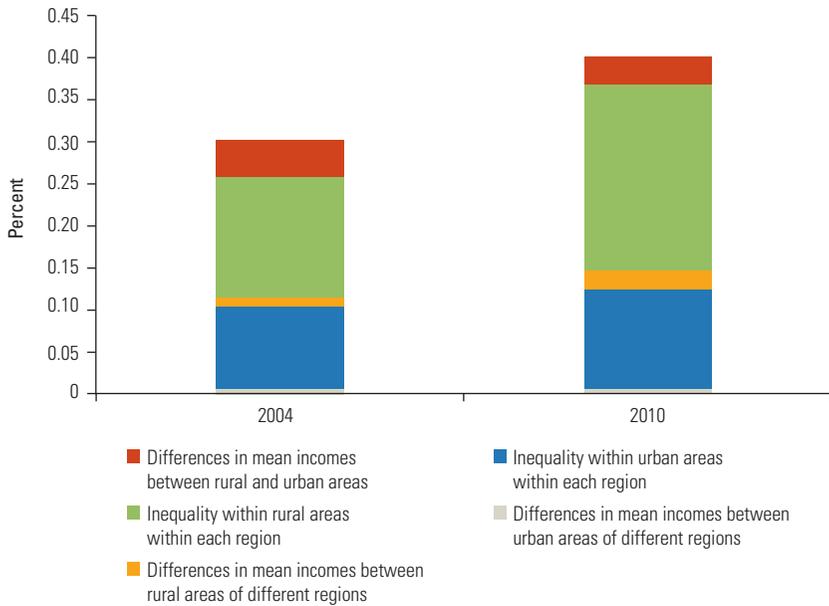
FIGURE 6.2 Mean per capita annual income in rural areas of Vietnam, by rural income decile, 2004–10



Sources: 2004, 2010 VHLSS.

areas nationally, (b) differences in mean income between rural areas of different provinces, (c) inequality within rural areas within each province, (d) differences in mean incomes between urban areas of different provinces, and (e) inequality within urban areas within each province.⁵

Figure 6.3 shows the fraction of income inequality attributable to these various components in 2004 and 2010. Between 2004 and 2010, the fraction of income and expenditure inequality attributable to differences in income between rural and urban areas declined. This reflects the faster average rate of growth in rural areas, with the result that mean income and expenditures in rural areas have been catching up with those in urban areas. The ratio of income in urban areas to income in rural areas declined from 1.87 in 2004 to 1.70 in 2010. Similar patterns are evident in consumption; the ratio of mean consumption in urban areas to rural areas declined from 2.26 in 2004 to 2.01 in 2010.⁶ This appears to be driven by the top end of the rural income distribution; the income of households in the top 40 percent of income in rural areas has grown faster than that of households in the top 40 percent of income in urban areas, while the income of the bottom 20 percent of rural households has grown slower than that of their urban counterparts. The decline in differences between rural and urban welfare over time in Vietnam is in contrast to the development patterns of China, where a rapid expansion of the rural-urban gap has been an important source and driver of inequality (World Bank 2009).⁷

FIGURE 6.3 Theil decomposition of the level and changes in income inequality in Vietnam, 2004–10

Sources: 2004, 2010 VHLSS.

Despite rising income inequality, inequality in consumption at a national level has not been increasing. The difference between patterns of income and consumption inequality warrants further analysis. Income is a flow measure, while consumption (as defined for this book) has been smoothed over time; for example, consumption also includes imputations for housing and durables. In addition, the way in which consumption was measured changed in 2010, raising issues of comparability with earlier rounds. Therefore, income is deemed a more suitable candidate for over-time comparisons of inequality.

Perceptions of inequality as captured in the qualitative study appear to capture different concepts than are reflected in empirical measures of inequality; as such, they provide a complementary facet of inequality. For example, the perception of rising inequality in urban and rural areas is at odds with the empirical evidence, which suggests that the rise in income inequality at the national level is driven mostly by rising inequality in rural areas. Furthermore, inequality in expenditures at the national level remained stable in the 2000s, in contrast to perceptions that it was rising. The annex to this chapter discusses how to reconcile differences between empirical measures of inequality and perceptions of inequality.

Why has income inequality increased?

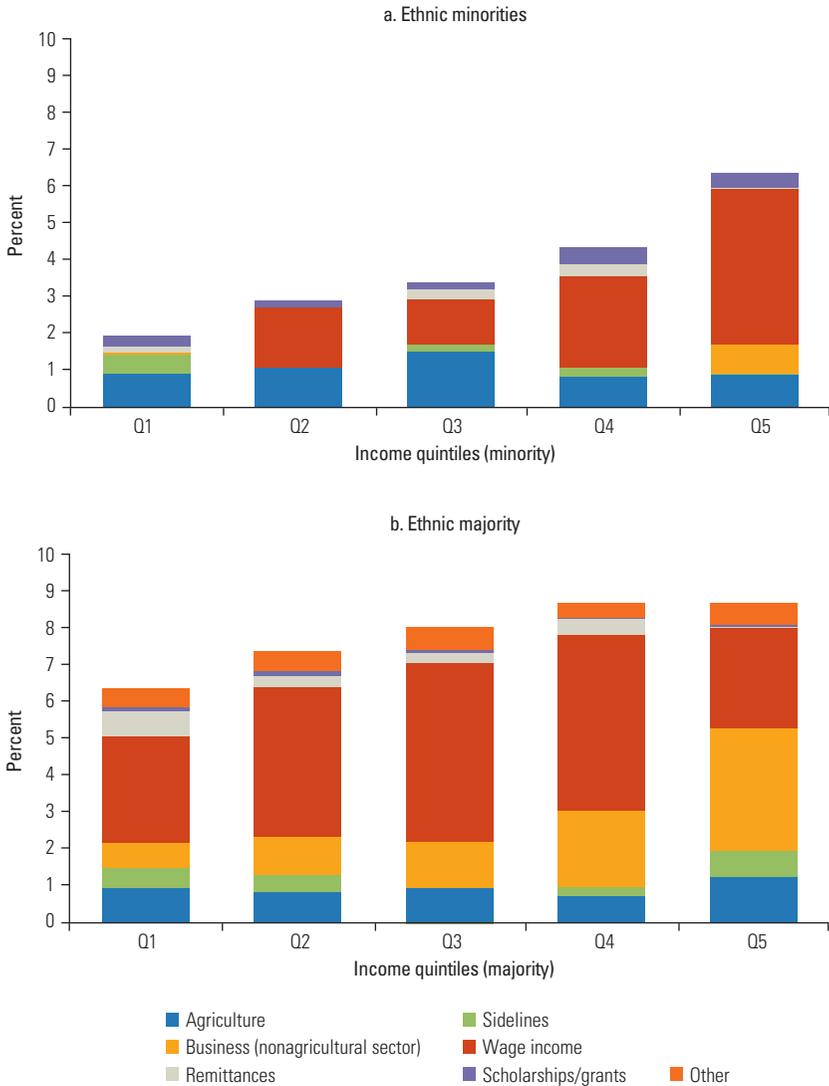
Disparities in income across Vietnam and rising income inequality can be attributed to multiple and interrelated factors.⁸ First, as discussed elsewhere in this book, ethnic minority groups have progressed less rapidly than the Kinh majority. Second, and closely related, geographic variations in growth patterns are likely to contribute to the rise in inequality—that is, differences in the drivers of agricultural and nonagricultural growth across regions contribute to differences in growth rates. Third, the rise in income inequality reflects changes in the pattern of production away from agriculture and toward the nonagriculture sector and away from low-skill work and toward higher-skill work outside the agriculture sector. The changes in production vary in scope across regions and interact with existing disparities in human and physical capital to change the distribution of income over time. Finally, the misuse of power, corruption, and connections are likely to be linked to inequality, although it is not clear to what degree these factors have contributed to the rise in income inequality.

The first three explanations for rising income inequality are examined in this section; inequality in power, corruption, and connections are discussed in the next. Other factors such as changes in landholding patterns and regional variations in agricultural productivity are also likely to play an important role and are left for future exploration.

The rise in income inequality reflects the increasing economic polarization of many ethnic minority groups. The evidence suggests that differences in growth rates between ethnic minorities and the majority population have contributed to rising inequality particularly within rural areas. Since ethnic minorities have lower educational outcomes and lower access to productive capital, differences in these other assets contribute to and substantially reinforce differences in income across ethnicities. As the nonagriculture sector has grown in Vietnam and more educated individuals have profited from this growth, the predominance of minorities in the slower-growing agriculture sector has resulted in a widening gap, on average, between minorities and the Kinh majority.

Figure 6.4 shows growth by income source among ethnic minorities and the majority, by quintile, between 2004 and 2010. The majority of income growth among poorer ethnic minority households has come from agriculture and sideline activities. Income among all minority quintiles apart from the richest is growing at a slower rate than that of the majority, and even the fastest-growing minority households experience lower income growth than the average majority households. The divergence in growth rates is strongly related to the income-generating activities of households. The fraction of income and growth from wage income and nonagricultural sources rises as one moves up the income quintiles. Only the richest 20 percent of minority households experience substantial growth in income arising from nonagricultural business activities.

FIGURE 6.4 Income growth in Vietnam, by ethnicity and income source, 2004–10



Sources: 2004, 2010 VHLSS.

The fraction of inequality attributable to differences in mean income between the majority and minority has risen over time, from 9 percent of total inequality to 14 percent, and approximately one-quarter of the rise in income inequality over time in rural areas can be attributed to differences between the majority and ethnic minorities. Therefore, differences in growth rates between minorities and the majority have contributed to the

rise in inequality over time, particularly in rural areas where ethnic minorities are concentrated.

Alongside an increase in the differences in mean income between minorities and the majority, the uneven pattern of growth across income quintiles suggests that inequality has risen within both the majority and the minority group. Income among the poorest 20 percent of minorities grew at an average annual rate of only 2 percent, substantially slower than the growth rate for the wealthiest 20 percent of minorities.

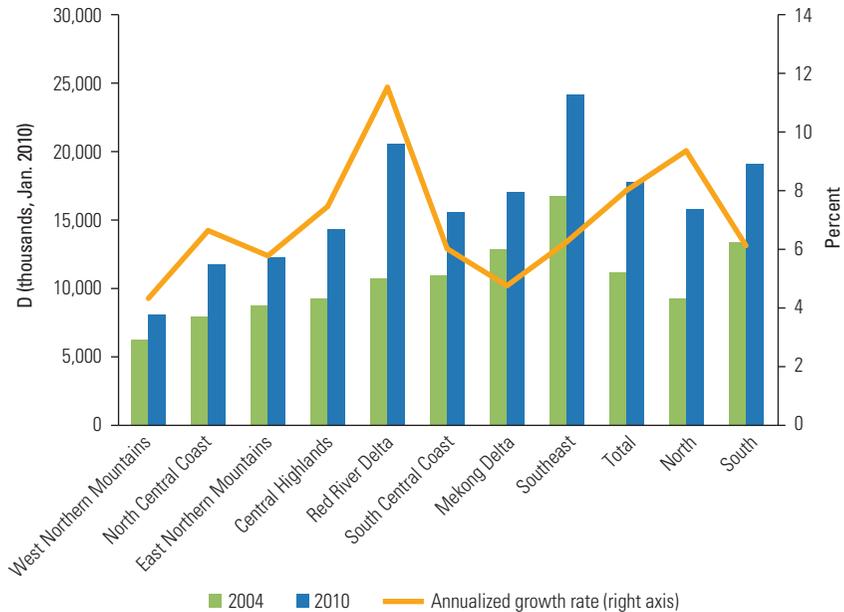
The percentage rise in the Gini coefficient of income inequality among the Kinh majority (in urban and rural areas) is greater than that seen in the combined sample, suggesting that the overall rise in income inequality is driven by other factors as well.

The evidence from the VHLSS of growing disparities between ethnic minorities and the majority population is corroborated in a study tracking rural households over time using the Vietnam Access to Resources Household Survey (McKay and Tarp 2012). This study finds that income grew more slowly, on average, between 2006 and 2010 for ethnic minorities than for the rest of the rural population, and this was the case even among minority and majority households with similar observable productive assets and education. Of interest, the study also documents substantially higher growth rates for ethnic minority households with high levels of education than for other minority households.

A second explanation for rising inequality is geographic variation in growth patterns that might have caused an increase in inequality between regions, provinces, and districts (see chapter 4 for a detailed discussion of regional variations in growth). Regional variations in growth patterns do, however, prompt the question: Why are certain regions growing faster than others, and what is driving these differences in growth?

The evidence suggests that regional variations in growth patterns contribute to the rise in inequality, but play a more limited role than differences across households within regions. There is substantial evidence of variations in growth across regions, with some poorer regions such as the northeast, north-central coast, and northwest growing substantially more slowly than the Red River Delta and the central highlands. Figure 6.5 shows mean income and growth between 2004 and 2010 by region. Income growth was uneven across regions; it was lower in the northeast than in other parts of the country and higher in the Red River Delta and the central highlands than the average growth rates of 8 percent. The southeast region had the highest income per capita. These growth patterns differ somewhat from patterns in the 1990s; between 1993 and 1998, the northern uplands and central highlands grew the least, while the southeast grew the most (World Bank 1999).

The fraction of income variation attributable to differences across regions and provinces has risen over time in rural areas, in part due to

FIGURE 6.5 Mean annual per capita income in rural areas of Vietnam, by region, 2004–10

Sources: 2004, 2010 VHLSS.

uneven growth in agriculture and in part due to geographic variation in opportunities in the nonagriculture sector. In contrast, China saw a reduction in the variation in incomes attributable to location over the 1990s and early 2000s (Benjamin and Brandt 2002b; Benjamin, Brandt, and Giles 2005; Benjamin et al. 2007). An important caveat is that migration and remittances are likely to play a mediating role in reducing variations in income and growth across regions, and the extent of this role is not fully captured in the data.⁹ This area deserves further attention in future analysis of inequality.

Differences in incomes and expenditures are increasingly related to differences in household characteristics rather than to where households live, although location continues to be an important correlate of household welfare. Education is one of the most important characteristics explaining differences in income and expenditure across households in 2010. Controlling for the average education of working-age adults explains more of the variation in household income in rural areas than region of residence. The fraction of variation in income explained by education increased between 2004 and 2010, suggesting that education is becoming an increasingly important correlate of income. The amount of variation in household income attributable to differences between regions of residence has also

increased over time, but this increase has been from a lower base. Between 2004 and 2010, 65 percent of the increase in the Theil index can be attributed to an increase in inequality between household education levels, where household education is defined using the education of the household head.

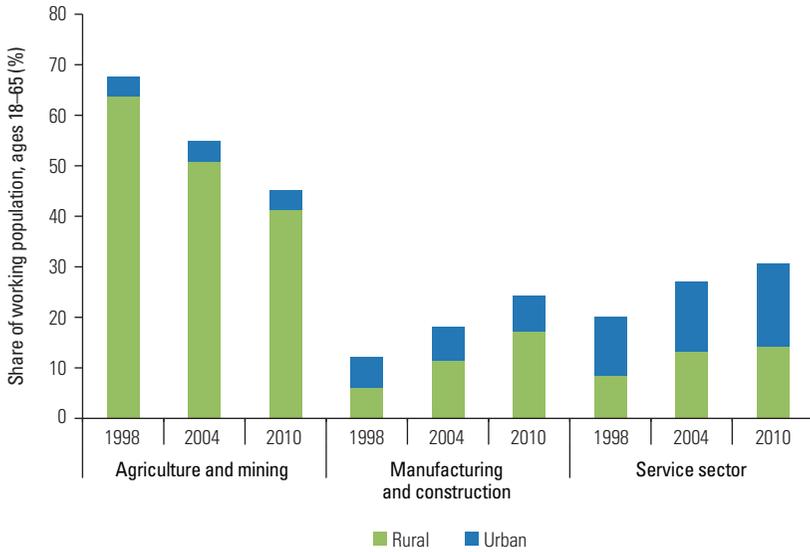
The third explanation for rising inequality relates to shifts in production away from agriculture and into the nonagriculture sector. Nonagricultural opportunities and employment are strongly identified in the perceptions study as factors contributing to the rise in inequality. The factors discussed included a move away from agricultural production and toward greater nonagricultural wage and business opportunities, rising returns to education, disparities in education across households, and differences in initial capital endowments. In urban areas, discussions centered around access to good employment opportunities and land conversion, while in rural areas higher value-added agricultural and sideline activities and access to non-agricultural employment opportunities were cited as prime candidates for rising inequalities. Respondents noted increasing difficulties in accessing good jobs, particularly with respect to public sector employment.

The composition of household income and employment has moved away from agriculture and toward manufacturing and services. Figure 6.6 shows the share of workers in the primary, secondary, and tertiary sectors and indicates the fraction of workers in each sector in rural and urban areas. Between 1998 and 2010, the share of the working population employed in agriculture declined from 68 to 45 percent, while the share employed in manufacturing rose from 12 to 24 percent and that in services rose from 20 to 31 percent. In both rural and urban areas, wage income grew quickly and at above-average rates over the period, while income from agricultural and allied activities grew relatively slowly. Although agricultural and allied activities continue to be an important source of income for rural households, their contribution declined from an estimated 55 percent of rural income in 1998 (McCaig, Benjamin, and Brandt 2009) to only 35 percent in 2010.

There is substantial regional variation in both the speed at which economic activity has moved away from agriculture in rural areas and the intensity with which nonagricultural activities are conducted at the household level. In rural areas, diversification into nonagricultural employment has occurred at both the household and individual level, constituting a powerful force for poverty reduction over the past decade. Variation in the speed at which this is occurring is likely related to the variation in living standards and growth rates across regions.

The expansion of nonagricultural wage and salaried work in urban and rural areas continues a trend seen in the 1990s. In rural areas in 1998, wages and salaried work contributed only 14 percent of total income overall (McCaig, Benjamin, and Brandt 2009). Wages became a more significant source of income throughout the 2000s; by 2010, wages accounted

FIGURE 6.6 Sector of employment of the working-age population in Vietnam, 1998, 2004, and 2010



Sources: 1998 VLSS; 2004, 2010 VHLSS.

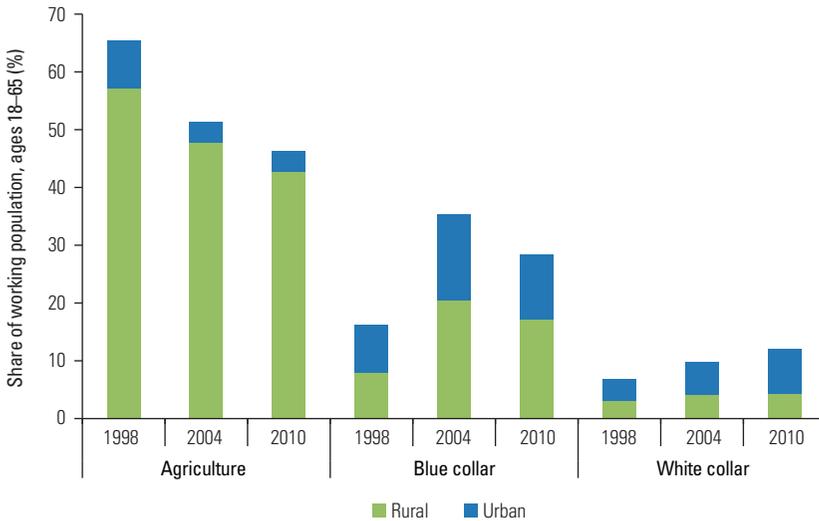
Note: Classifications are based on occupation codes. Agriculture includes high- and low-skilled agricultural work. Nonagricultural occupations are separated into lower- and higher-skilled work: higher-skilled work consists of all professional and office-based categories; lower-skilled work includes machine operators, service and sales, and unskilled work. The broad classification is due to changes in occupation codes over time.

for 32 and 52 percent of income in rural and urban areas, up from 26 and 44 percent, respectively, in 2004.¹⁰ Although 19 percent of individuals receiving wages in rural areas in 2010 worked for wages in the agriculture sector, the vast majority of rural wage work was outside of agriculture.¹¹

Employment patterns in the nonagriculture sector are very different in rural and urban areas. In rural areas, the move out of agriculture has been accompanied by a sharp rise in employment in manufacturing and construction. In 2010, nearly 70 percent of individuals in the secondary sector were found in rural areas, and this sector accounted for nearly 20 percent of overall employment in these areas. By contrast, urban areas have seen a decline in the fraction of individuals employed in the manufacturing sector and a corresponding expansion in services.

Occupations in the nonagriculture sector differ in their demand for skills, and the composition of nonagricultural growth by type of occupation differs across rural and urban areas. Figure 6.7 shows the split of workers between agriculture and lower- and higher-skilled nonagricultural work (blue- and white-collar work) in rural and urban areas. Although the fraction of workers conducting high-skilled (white-collar) work has

FIGURE 6.7 Type of occupation of the working-age population in Vietnam, 1998, 2004, and 2010



Sources: 1998 VLSS; 2004, 2010 VHLSS.

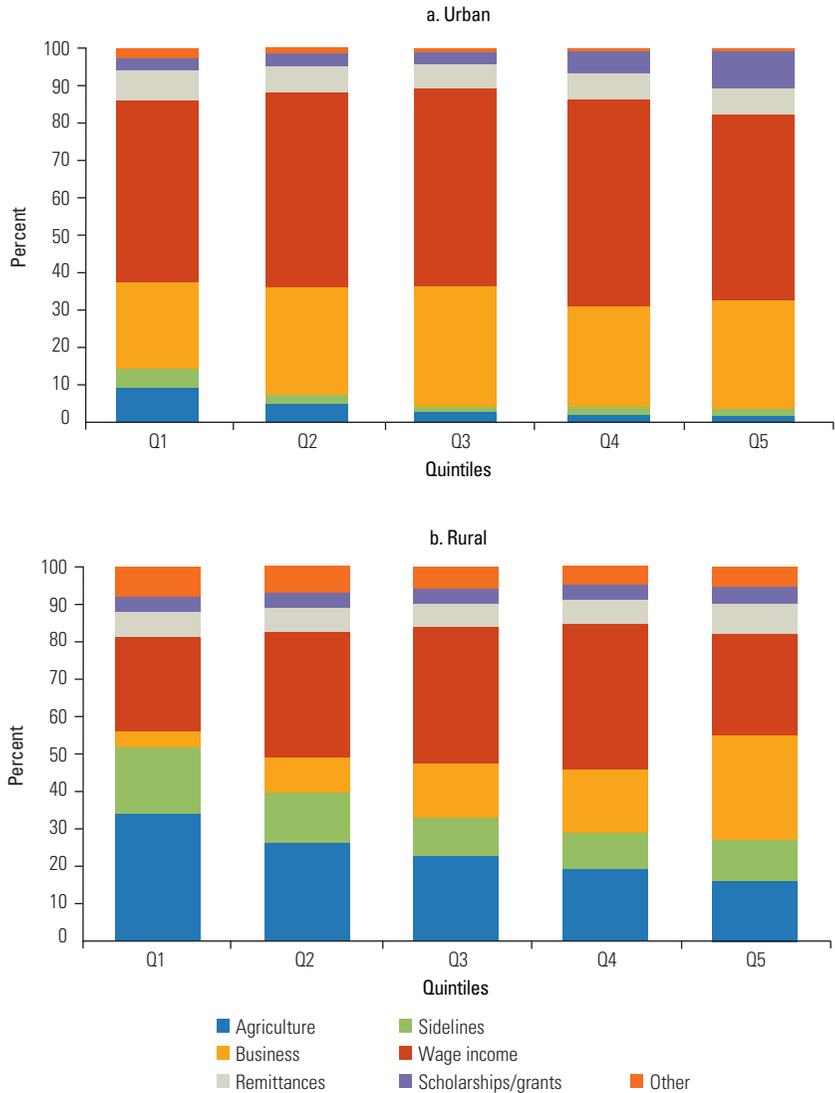
Note: Classifications are based on occupation codes. Agriculture includes high- and low-skilled agricultural work. Nonagricultural occupations are separated into lower- and higher-skilled work: higher-skilled work consists of all professional and office-based categories, lower-skilled work includes machine operators, service and sales, and unskilled work. The blunt classification is due to changes in occupation codes over time.

risen over time, the majority of the increase has been in urban areas.¹² By contrast, rural areas have seen growth in lower-skilled, blue-collar nonagricultural employment, reflecting a substantial increase in manufacturing work in rural areas over time.

The pattern of nonagricultural growth—more growth in manufacturing and blue-collar employment in rural areas and more growth in service sector and white-collar employment in urban areas—is perceived as a source of disparity among focus group respondents in rural areas and in small urban towns. For example, in rural areas with industrial parks, such as Hai Duong, factory employment is the primary source of labor demand in the nonagriculture sector. While it is possible to find low-skilled and relatively low-paid work in a factory, it is perceived that there are far fewer higher-skilled and higher-paid employment opportunities than in big cities such as Hanoi.

Figure 6.8 shows the composition and growth of income across income quintiles in urban and rural areas, respectively. The share of income from agriculture and allied activities has declined over time but continues to be the major source of income for the poorest 40 percent of the rural population. The share of income coming from sideline activities related to agricul-

FIGURE 6.8 Composition of income in urban and rural areas of Vietnam, 2010



Source: 2010 VHLSS.

ture has remained substantial among poorer households and has grown as a share of income for the poorest quintiles since 1993 (McCaig, Benjamin, and Brandt 2009). The majority of income from this component across all income quintiles is from livestock farming and aquaculture.

Figure 6.8 shows the rising share of wage income across the income distribution. In urban areas, wages are the most important source of income

across all income groups, accounting for more than half of income. This is in stark contrast to the income profile in 1993, when the majority of income from the top half of the income distribution came from business income.¹³ In rural areas, all groups earned a greater share of income from agriculture and sideline activities than from wages in 1993 and 2004. By 2010, wage income had overtaken agricultural income for the third and fourth quintiles. Although their share of wages increased, the richest quintile continues to earn more from business and agriculture. The fraction of working individuals receiving wages as either their primary or secondary employment has also risen over time, from approximately 17 percent of the workforce 18 to 65 years of age in 1998 to 40 percent in 2010, and from 13 to 37 percent, respectively, in rural areas.¹⁴

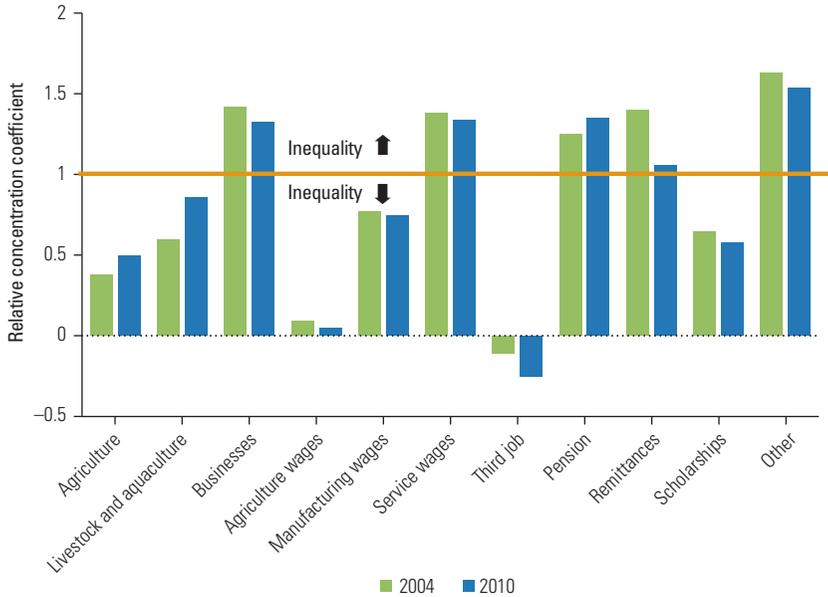
To explore more formally the contribution of different income sources to income inequality, we decompose the Gini coefficient into its source components (Adams 1994; Stark, Taylor, and Yitzhaki 1986). The Gini coefficient of total income can be written as the sum of the contributions of each income source. The effect of a source on total income can then be broken down into three components: (a) the source of income as a share of total income; (b) the inequality within the sample of income from a given source; and (c) the correlation between a given source of income and total income. The larger the product of these three components, the greater the contribution of income from the source to overall income inequality.

Figure 6.9 presents relative concentration coefficients, indicating whether an income source is inequality increasing or inequality decreasing. If the relative concentration coefficient is greater than 1, the source is inequality increasing, while if it takes a value less than 1, the source of income is inequality decreasing. Figure 6.10 shows the contribution of the different sources of income to the Gini coefficient of inequality, including their share of total income.

Income from the agriculture sector, notably from crop activities, agricultural wage labor, and livestock and aquaculture, is inequality decreasing. Agricultural wage labor and cropping activities are among the most equalizing components of income.¹⁵ A rise in the relative concentration coefficient of agriculture between 2004 and 2010 implies that the extent to which agriculture is equalizing has declined over time. Relative to its share of income, however, the contribution of the agriculture sector to overall inequality is low; the agriculture sector (including agricultural wages) contributed approximately 29 percent of total income but accounted for only 15 percent of inequality. In rural areas, agricultural sideline activities were a relatively equalizing source of income in 2004; in 2010 they had become mildly disequalizing, a change that reflects the faster growth in these sources of income among richer rural households.

The distribution of remittance income has become more equalizing over time in both rural and urban areas. In 2004, the share from remittances

FIGURE 6.9 Relative concentration coefficients of different sources of income in Vietnam, 2004 and 2010



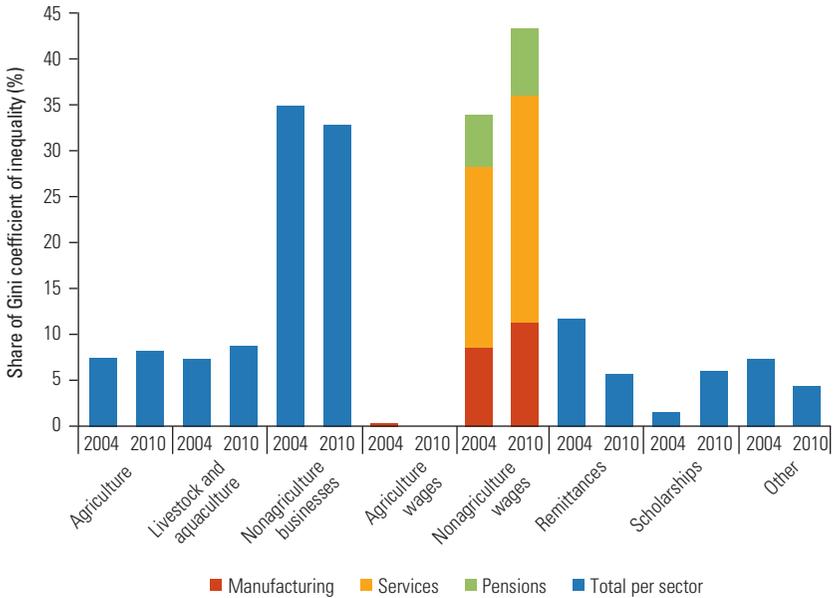
Sources: 2004, 2010 VHLSS.

Note: Based on a Shorrocks decomposition by income source. A relative concentration coefficient greater than 1 suggests that the income source is inequality increasing, and a value less than 1 suggests that it is inequality decreasing (that is, it is not concentrated disproportionately among richer households).

in the richest quintile was double that in the poorest quintile; by 2010 the share from remittances was similar. The change in the distributional impact on remittances was driven predominantly by changes in the migration patterns of richer households. The quantitative and perceptions studies both suggest a declining role for higher-paid international migration among richer households; the share of remittances coming from international migration declined from 35 percent of remittances to 30 percent over time. Income from remittances dropped in absolute terms in the top quintile, and the share of international remittances declined from 47 percent of remittance income to 42 percent among the richest 20 percent of the population.

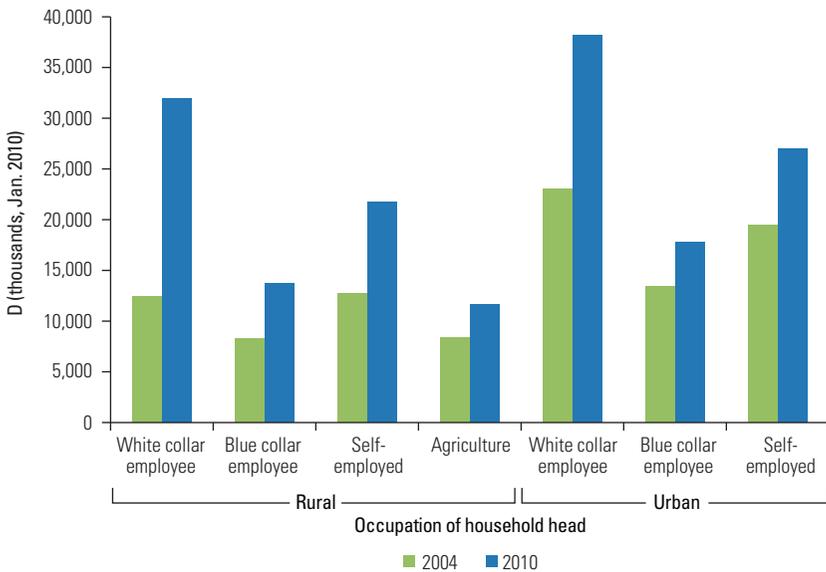
Households working in the nonagriculture sector earn more than those working in the agriculture sector, and their incomes have grown at a faster pace. Figure 6.11 shows per capita income conditional on the sector of employment of the household head. The income of households with a household head employed in a white-collar occupation in the nonagriculture sector is highest in both urban and rural areas, followed by the income

FIGURE 6.10 Contribution of different income sources to the Gini coefficient in Vietnam, 2004 and 2010



Source: 2010 VHLS.

FIGURE 6.11 Per capita annual income in rural and urban areas of Vietnam, by occupation of the household head, 2004 and 2010



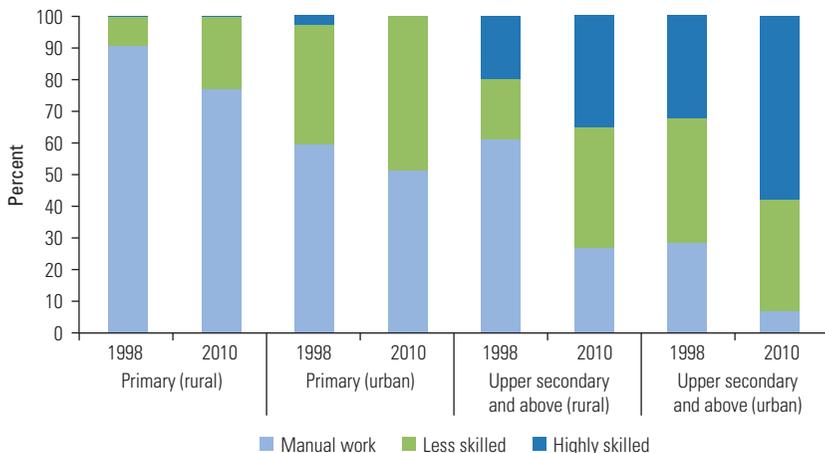
Sources: 2004, 2010 VHLS.

of self-employed nonagricultural workers. In rural areas, households whose head works in agriculture have the lowest income in both periods and the lowest average growth. The difference between these households and agricultural households was relatively small in 2004 but has grown over time.

Education is an important determinant of whether an individual works in the agriculture or nonagriculture sector and the type of nonagricultural work conducted. The relationship between education and type of employment is evident for relatively recent labor market entrants who have completed their schooling. Figure 6.12 shows the structure of employment for workers 25 to 30 years of age in 1998 and 2010. Having an upper-secondary education or above is a significant determinant of having nonagricultural employment, and individuals with a college education are the most likely to be found in more attractive, higher-skilled employment.¹⁶

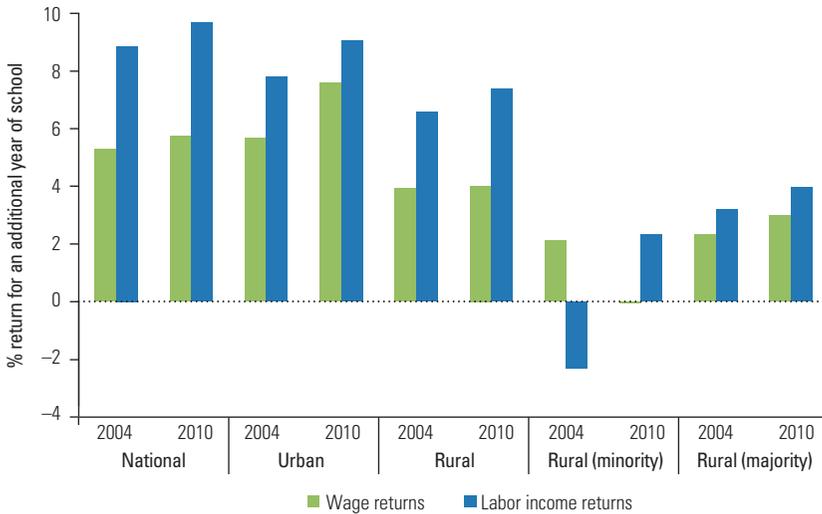
Returns to education increased during the 2000s, with substantially larger increases for workers in urban areas (figure 6.13). Empirical work carried out for this chapter finds evidence of rising returns to education in the wage labor market during the 2000s; for nonagricultural jobs, the hourly wage return to a year of schooling increased from 5.3 percent in 2004 to 5.8 percent in 2010. The labor income return to education (based on total earnings) is greater than the wage return to education (based on hourly earnings) since individuals with more education work longer hours in the wage labor market than individuals with less education. An additional year of education raised labor incomes an estimated 9.7 percent in

FIGURE 6.12 Workers ages 25–30 in Vietnam, by education level and type of job, 1998–2010



Source: 2010 VHLSS.

Note: High-skilled workers are professional or office workers. These positions are usually classified as white-collar work. Lower-skilled workers are employed in the service sector, in sales, as machine operators, or as skilled manual or handicraft workers. Manual workers include agricultural laborers and unskilled manual workers.

FIGURE 6.13 Hourly wage and labor income returns to schooling in Vietnam, 2004–10

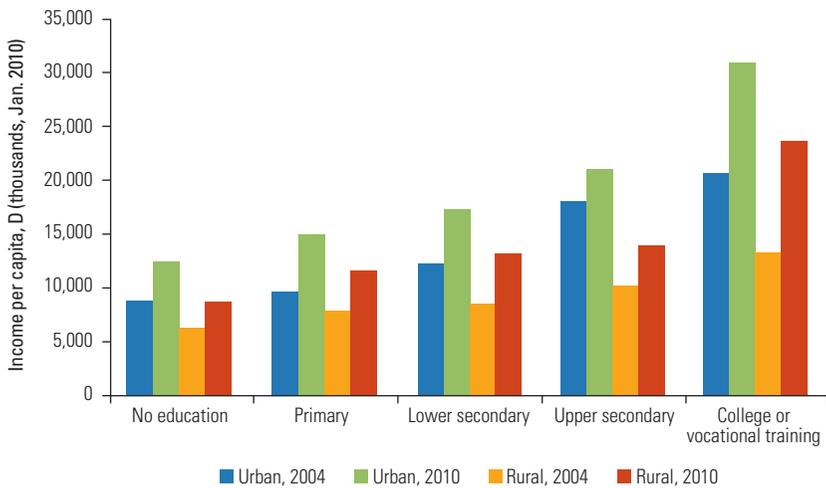
Sources: 2004, 2010 VHLSS.

2010 compared to 8.9 percent in 2004. Returns to education are higher for workers in urban than in rural areas and have risen faster over time. In urban areas, an additional year of schooling was associated with a 7.6 percent increase in hourly wages, while in rural areas it was associated with a 4.1 percent increase. Within rural areas, returns to education are lower for ethnic minorities than for the majority and appear to have declined between 2004 and 2010. The lower returns for ethnic minority workers reflect the fact that minorities tend to work in lower-paid occupations, including wage employment in the agriculture sector.

The increase in returns over time has widened the gap between the wages and income of individuals with higher and lower levels of education.¹⁷ Since education is distributed unequally across the working-age population and adjusts only slowly over time, some people will benefit more from nonagricultural growth and higher returns to education than others. Therefore, nonagricultural growth and rising returns to education are associated with rising inequality in income.

The link between education and rising income inequality can be explored by examining the relative gap between the incomes of more and less educated households, which rose between 2004 and 2010. In 2004, households with at least one working-age individual with a college education earned 1.3 times more income than those with an upper-secondary education and 2.5 times more than households with no education. By 2010, college-educated households earned 1.7 and 3.0 times more, respec-

FIGURE 6.14 Per capita annual income of urban and rural households in Vietnam, by education of the most educated working-age household member, 2004 and 2010



Source: 2010 VHLSS.

tively. Figure 6.14 shows income in urban and rural households, by level of education. Between 2004 and 2010, households with more education earned more than households with less education, and the income of the most educated households grew faster than that of all other education categories in both rural and urban areas. Although urban households continued to earn more in every education category in 2010 than in 2004, the ratio of the income of rural households to that of urban households at education levels above lower secondary fell over time. This suggests that the decline in mean income between rural and urban areas is due to the relatively richer, more educated individuals in rural areas catching up to their urban peers, rather than to catch-up at the bottom end of the income distributions.

Inequalities in opportunities and income differences across generations

The analysis of opportunities focuses predominantly on education. This choice of focus was driven in part by the perceptions study, as education and employment were central concerns in many focus groups. It was also motivated by the empirical evidence, which suggests an increasingly important role of education as a determinant of income inequality. It is recognized that the focus on education comes at the exclusion of other important factors that drive inequality, however—in particular, access to health care and basic public services.¹⁸

Growth in the demand for educated labor and in the return to education in urban areas implies that education is an increasingly important—and dividing—asset in Vietnam. Education levels in the labor market and in households are rising as more educated younger cohorts join the labor market and less educated older cohorts retire. However, the stock of education among the working-age population changes slowly in response to changing returns; therefore, initial differences in education endowments can translate into large differences in income as the return to education rises and the demand for skilled labor in the nonagriculture sector grows.

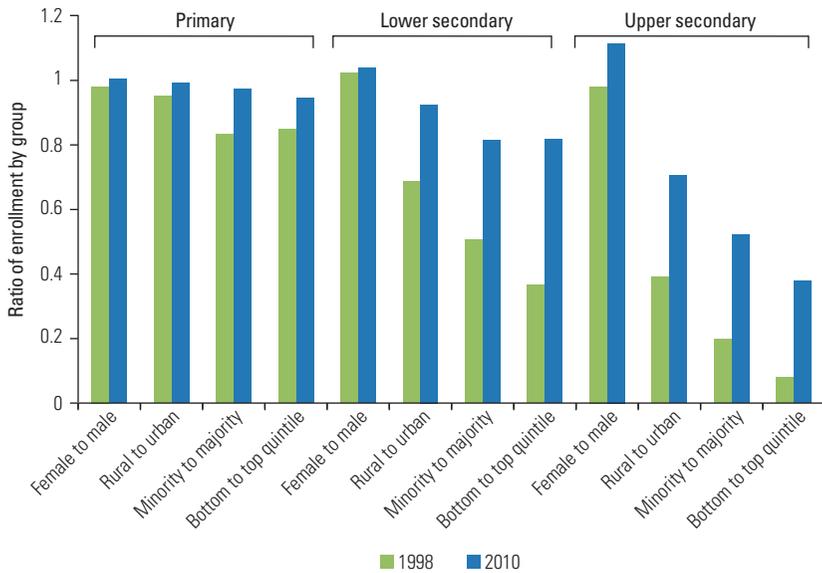
Whether income inequality and disparities are perpetuated across generations depends on whether investments in human capital among younger generations respond to changes in income generation opportunities or whether they reflect inequalities in opportunities linked to younger persons' circumstances of birth, such as the birthplace, characteristics of the parents, or ethnicity. The evidence suggests that inequalities in education are likely to be transmitted to future generations, implying that deprivations continue to be perpetuated across generations and require decisive action.

The transmission of deprivation across generations was reflected in multiple focus group discussions, with groups commenting that children born to poorer households are likely to drop out of school earlier than those born to richer households and to work in less-skilled occupations. Many participants recognized that gaps in educational enrollment have narrowed between better-off and worse-off households at lower levels of education. However, gaps remain at higher levels of education, and quality gaps arise at all ages, implying that poverty perpetuates across generations. As one member of a lower-educated migrant group expressed it,

Education is an important cause of inequality. Without education, I work as an unskilled worker and send my children to lower-quality schools. With a good education and income, I could send my children to good schools. It is a vicious cycle. (Lower-educated migrant group, Ho Chi Minh City)

Substantial progress has been made in equalizing enrollment and completion rates at the primary level. Between 1998 and 2010, differences in enrollment at the primary and secondary level narrowed across the rich and the poor and in rural and urban areas, as shown in figure 6.15. At the primary level, educational enrollment is close to universal for all groups, although important differences remain between ethnic minorities and the majority and across minority groups, as discussed in chapter 5.

Educational investment continues to be distributed unequally at higher levels, and this inequality will feed into inequalities in outcomes later in life. Gaps in enrollment at an upper-secondary level were still high in 2010, and a child's background continues to play a large role in determining his

FIGURE 6.15 Ratio of enrollment in primary, lower-secondary, and upper-secondary school in Vietnam, by various groups, 1998 and 2010

Sources: 1998 VLSS; 2010 VHLSS.

or her educational attainment at a higher level. Upper-secondary enrollment for children in rural areas is still only 70 percent of enrollment rates for children in urban areas, and ethnic minority enrollment is only half that of the majority. Only four poor students are enrolled in upper-secondary school for every 10 richer students enrolled. Since many of those richer students will continue on to college or university, the final educational difference between students residing in the top and bottom income quintiles will be wider than it is for upper-secondary education.

The characteristics of a child's parents and household wealth continue to be significant predictors of whether a child is enrolled in lower-secondary or upper-secondary school, although their impact on enrollment diminished between 1998 and 2010. Educational enrollment at the secondary level is affected by income, which can be considered a short-term liquidity constraint and is linked to longer-term, or permanent, factors such as parental education (World Bank 2011).¹⁹ The evidence also suggests that the impact of income on educational decisions is twice as large for ethnic minorities as for the Kinh-Hoa majority (World Bank 2011).

Beyond family background, the quality of schooling also influences the skills that a child acquires in school. At the primary level, the characteristics of teachers, schools, and classrooms are statistically significantly

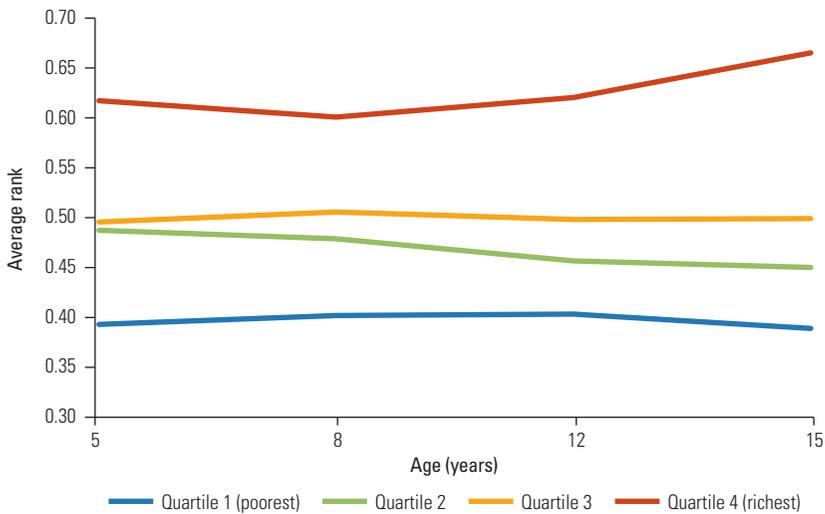
related to student achievement in math and science, and these inputs are distributed unequally across schools in Vietnam (World Bank 2011).

Evidence from the Young Lives data suggests that children from poorer households perform worse on math tests prior to entering primary school and continue to perform worse than children from richer households throughout primary and lower-secondary school. Figure 6.16 shows the average rank of children on math tests at ages 5, 8, 12, and 15 by household wealth quartile. For children at age five, prior to entering school, average math scores increase with wealth quantiles, so that children from the poorest 25 percent of households have lower scores, on average, than children from other wealth quantiles.

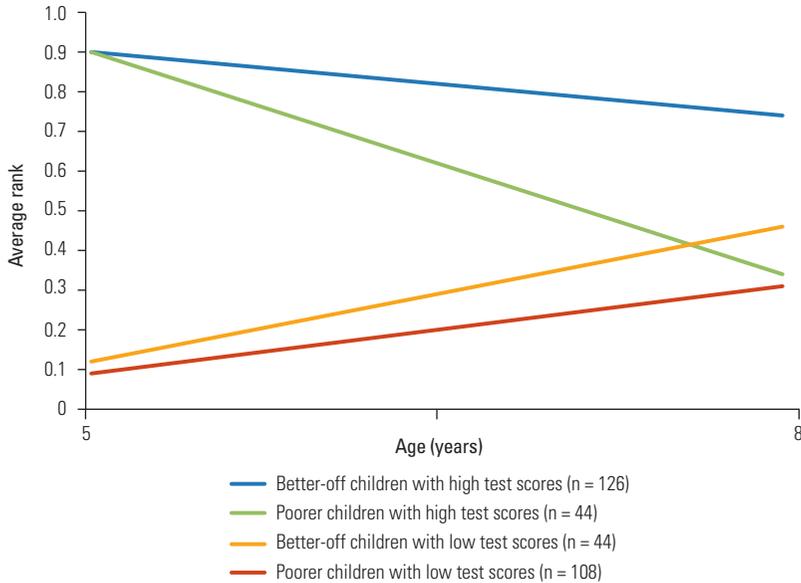
Most worrisome, the circumstances that a child is born into appear to be a more important determinant of success than a child's potential when entering school. Figure 6.17 shows the trajectories of children who had math scores in the top and bottom 20 percent at age five. Trajectories are divided by the wealth status of their household at age eight. We can see that high-scoring children from poor households perform poorly relative to their high-scoring peers from rich households. Similarly, low-scoring children from rich households improve their scores over time more than low-scoring children from poorer households.

The perceptions study indicates that parents perceive significant variations in the quality of education across rural and urban areas at all levels of education. A frequently raised concern is that teachers in rural areas at

FIGURE 6.16 Average rank on the math test in Vietnam, by wealth quartile, at ages 5, 8, and 15



Source: Estimates based on Young Lives data, rounds 1–3: 2002, 2006, and 2009.

FIGURE 6.17 Average rank on the math test in Vietnam, by initial test score and wealth

Source: Estimates based on Young Lives data, rounds 1–3: 2002, 2006, and 2009.

higher levels of education are less qualified than teachers in urban areas and that the poor are unable to afford to send their children to the same-quality schools as the rich.

The inequality in education quality is striking between richer and poorer households in urban areas, where rich children go to high-quality schools, attend extra classes, and pay private tuition, including for English and computer courses. Meanwhile, poor children attend average schools with few extra classes. In the past, there was little differentiation in the quality of education services, but now such differentiation is perceived to be very large in urban areas, and the rich are viewed as having the capability to invest in better-quality education for their children. For example, a student from Ward 26 in Ho Chi Minh City reported,

As early as the child is still in preschool, the rich families will start to seek their way into good primary schools; the poorer families just want their children to be literate, so they don't care about which school their children are going to. Previously, there was a small number of international schools for the rich families to choose from, [and] both rich and poor students would attend the same school; now there are more schools providing a wider range of services, [and] the rich-poor gap also gets widened.

Unequal quality of education is perceived to start from an early age, with children from poorer households sending their children to lower-quality kindergartens. Some poorer households in An San Ward, Tam Ky City, Quang Nam, reported not being able to afford to send their children to kindergarten. Others who were able to do so expressed concerns about quality differences between the preschools attended by their children and those attended by children from wealthier backgrounds:

The disparity can be found right from the preschool level. The poor households, who try their best, can send their kids to school[s] that cost D 500,000 per month. The better-off households, on the contrary, send their kids to key schools that ask for fees of D 700,000 to D 900,000 per month. The diet and care services among these schools are different.

Although empirical evidence on quality differences at higher levels of education is limited, looking at the composition of education expenditures across households can give insight into why quality differences may emerge. As noted in chapter 1, spending on inputs like extra courses is substantially higher among richer and urban households at the lower- and upper-secondary level, and the amount spent on these courses has increased over time among the richest households. These trends are strongest in urban areas, but are also evident in rural areas. If children from richer households can benefit from extracurricular activities and additional training through tutoring and foreign language studies, they are likely to receive a higher-quality and more rounded education than children from poorer households.

There is evidence of inequality of opportunities in Vietnam beyond education, and circumstances beyond the control of an individual contribute substantially to the inequality in access to basic services. Attitudes toward inequality, and whether it is perceived as unjust, unnecessary, and undesirable, depend on the processes that form it. An important factor is whether inequalities are perceived to be driven by differences in factors for which the individual can be held accountable (“efforts”) or are due to circumstances beyond an individual’s responsibility (“circumstances”; Roemer 1998). Factors beyond an individual’s control that lead people to have different levels of well-being can thus be considered inequalities of opportunity (Paes de Barros et al. 2009).

The human opportunity index (HOI), developed by Paes de Barros et al. (2009), captures inequality of opportunity by examining the extent to which the circumstances that children are born into, such as gender, parental education, and ethnicity, affect the likelihood of their access to the basic building blocks of human capital, such as education and health services. The index captures two moments of access to basic services. It captures

absolute levels of access and then calculates differences in the access rate across gender, location, parental background, income, and other indicators of circumstances. The degree of inequality is measured by the D-index, which captures the dissimilarity in access rates due to differences in circumstance. Differences in the degree of inequality of opportunity can be interpreted as the fraction of a given inequality that needs to be redistributed in order to achieve equality. The D-index measure of inequality of opportunity is used to scale down the average national access rate of a service to the given HOI.

The HOI in Vietnam is examined for 2004 and 2010 in a background paper for the poverty assessment led by researchers from the Vietnamese Academy of Social Sciences, with inputs from the World Bank (VASS 2012). Opportunities for access to basic building blocks were examined in three domains—education, health, and housing infrastructure—and the paper investigates whether access to these basic foundational blocks is spread evenly across children in the population or is circumscribed by inherent characteristics beyond an individual's control. The circumstances examined include both individual and household characteristics, including gender, parental education and well-being (expenditures), location, and ethnicity.

In international comparisons with countries in Africa and in Latin America and the Caribbean, Vietnam fares well on some dimensions, such as access to electricity and school attendance, and less well on others, such as access to piped water and flush toilets. Specifically, the HOI for school attendance is higher in Vietnam than in most African countries and several countries in Latin America and the Caribbean, while the HOI for access to electricity is higher than that in all African countries and only slightly lower than that in most Latin American and Caribbean countries. The international comparison is, however, less favorable in other dimensions. Vietnam's HOI for access to piped water is higher than that in only some African countries, and it is lower than that in all Latin American and Caribbean countries. The HOI for flush toilets is in the middle of the whole range in African and Latin American and Caribbean countries. However, Vietnam falls considerably behind top-performing countries in both of these basic services.

Although equality of access is high for education “quantity” in 2010, the HOI suggests that the quality of education is more divergent across the population. Among children 7 to 11 years old, both the coverage rate and the HOI are high, suggesting low inequalities in accessing primary education. At the lower-secondary level, however, although the coverage rate is high, there are some inequalities in access. The education of the household head is the most important characteristic determining whether a child attends lower-secondary school between ages 12 and 15, followed by household well-being (expenditure). These two circumstances account

for more than 50 percent of the dissimilarity. Although ethnic minorities have lower educational outcomes, ethnicity alone plays a smaller role than well-being and education of the household head, which suggests that differences in other circumstances contribute substantially to and reinforce inequalities across ethnicities.

The quality of schooling received by a child is measured by his or her ability to advance independently to lower-secondary school without help when he or she is in the last grade of primary school. Only 62 percent of pupils in grade five would be able to advance to lower-secondary school without help. The considerable difference between the HOI for the quantity and quality dimensions of education suggests that greater emphasis needs to be placed on raising the quality of the education system, in general, and primary school, in particular. Household well-being and education are the two most important circumstances determining the quality of education received.

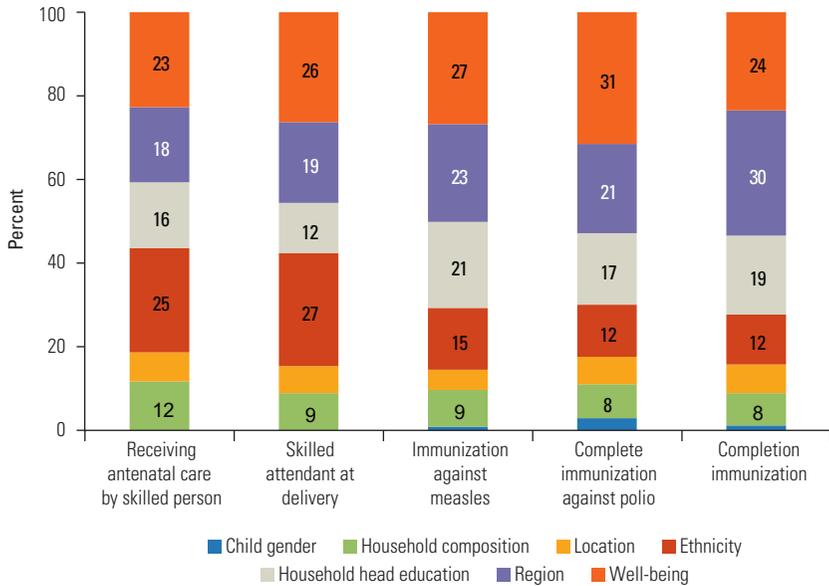
Although the HOI for access to electricity and improved water sources is high, the coverage of access to improved sanitation facilities is lower and distributed less evenly than the other infrastructure measures. Although there was significant progress during 2002–08 and further improvement in 2010, the coverage rate was approximately 64 percent in 2010, suggesting that more could be done to improve access to this basic service.²⁰ Furthermore, a substantial gap between the coverage rate and the HOI indicates a remarkable inequality in access to this service. The region where a household is located plays the biggest role in determining access to clean water and sanitation, followed by a household's well-being, ethnicity, and education of the household head.

The HOI is high for some indicators of health and low for others. Notably, the index suggests that Vietnam is doing well on the fraction of women receiving prenatal care, assistance at delivery, and child immunization against measles—92 percent of children one to five years of age were vaccinated against measles in 2010— but that immunization against polio is lower.

Household well-being is a leading determinant of opportunities in the health domain. Figure 6.18 shows the relative importance of circumstances for key health indicators in 2010, decomposed into the fraction attributable to different circumstances. Ethnicity is the most important circumstance for access to care for mothers, accounting for one-quarter of dissimilarities in receiving prenatal care and assistance at delivery. Among children, household well-being, region of residence, and education of the household head account for 65 percent or more of the dissimilarity in opportunities.

An analysis of the HOI at the region level suggests that there is substantial heterogeneity across regions with regard to access to improved sanitation facilities in both the initial year examined (2002) and in 2010. The southeast had the largest and most stable increase in access, while the

FIGURE 6.18 Relative importance of circumstances for access to health care in Vietnam, 2010



Source: VASS 2012.

northwest had a very low HOI in 2002, which improved in a slow and unstable manner.

Inequalities in connections, voice, and influence

Qualitative and quantitative evidence suggests that inequality in Vietnam reflects processes that may be more socially and economically damaging, such as inequalities in social and political capital, which manifest themselves through inequalities driven by influence, connections, and uneven voice. Inequalities of these forms were raised in many focus groups, urban and rural, rich and poor alike—as being important drivers of inequality and as having risen in recent years.²¹

Corruption is a systemic problem in Vietnam, and the qualitative evidence reflects many of the issues raised in previous analyses of corruption and transparency in the country (Anderson et al. 2009; CECODES et al. 2012; World Bank 2010; World Bank, Embassy of Sweden, and Embassy of Denmark 2011), but it does so through the lens of rich-poor differences and inequality, shedding light on how inequalities in socioeconomic outcomes interact with, are magnified by, and are perpetuated by inequalities in power and connections. Inequality of treatment by public authorities was raised with respect to several factors, including land conversion prac-

tics that favor investors over landholders and uneven quality of public service delivery in hospitals and public notaries that lead to frustration among poorer and less-well-connected individuals.

Rural respondents were concerned about increasing disparities in employment opportunities in the public sector and cited the need to pay bribes or have connections to obtain a job as a teacher, as a doctor, in a state-owned enterprise, and as a public official.²² These concerns were widespread and expressed by individuals from all backgrounds, including commune officials. Evidence from the nationally representative provincial administrative procedural index study suggests that 29 percent of individuals agree that bribes are required to obtain a job in the public sector, and nearly half of all respondents believe that connections are important in obtaining various types of state employment (CECODES et al. 2012). Moreover, these views are shared in both urban and rural areas.

Unfair recruitment mechanisms in the public sector are linked to concerns about youth unemployment following substantial investment in higher levels of education. Participants in focus groups of youth, in particular, voiced frustration with procedural inequalities that affect their ability to translate their education into good jobs, such as the unfair role of power and relationships in obtaining public sector employment. In their words,

Money is not enough. Money without connections can't get you a job in the public sector. I know some cases where the workers quit their job in pursuit of higher education but after graduation, they returned to work in the previous position as if they had never attended such courses. (Better-off group, Cam Hung Commune, Hai Duong)

In my place, there are some guys who have to work as simple workers after completing university just because their families do not have D 50 million to D 70 million to bribe their way into an agency just to work as an administrative assistant. Many with poor academic performance somehow passed university entrance exams and were placed [in] a job after graduation. This is irrational but unlikely to abate in the future. (Senior citizen, Cam Hung Commune, Hai Duong)

In peri-urban areas where agricultural land is being converted to non-agricultural land for industrial zones, inequalities in outcomes related to land were seen as an unfair source of disparities, whereby people with connections and information gain from land speculation while those without are unable to convert their land into income. Focus group participants perceived that the current land conversion policies and processes favor commercial investors and that local landowners do not secure their rights to proper compensation and resettlement, effective vocational training,

occupational replacement, and employment generation. As one group expressed it,

Many owners of bogus projects have exploited loopholes under Decree 64 to appropriate land from local farmers with false claims of using it [the land] for public utilities. (Poor group, Me Tri, Ha Noi)

Focus group participants raised concerns suggesting that corruption in land management is regressive since it involves a transfer of land at lower-than-market prices from poorer households to relatively well-off investors. People with connections and access to information were reported to have made substantial profits from land speculation and trade, while those who lost land in the process have to struggle for their basic necessities after land conversion. A key concern here is speculative behavior, wherein land is bought at a low price and resold shortly after at a higher price, as reported by youth in Me Tri, Ha Noi:

People in [the] land sector, they know in advance the information so that they can advise others to buy land when the price is low and then sell it at much higher prices.

Unequal access to public services was another major source of concern across focus groups, with differences in treatment noted between those who “do politics” and ordinary people. Concerns about access to quality public services are widespread and cover multiple forms of public services, from lengthy administrative procedures such as registering a marriage to the length of wait and quality of treatment given by doctors and hospital staff in public hospitals. In addition, concerns were raised in multiple settings regarding who receives the benefits from public social assistance programs targeted at the poor.

It is perceived that those who have been officials of government agencies are often given priority when they go through administrative procedures. In particular, a commonly voiced concern was that richer people use bribes to access better education or health care services. Participants expressed concern over the predominance of valuing money over traditional ethical values on the part of employees in public services as outcome inequalities widen. As one person put it,

For example, when it comes to doing paperwork at the ward people’s committee, if you had been with the state before you retired, you will still be given priority over other ordinary people. Even if you have to queue up, you will still be quicker to have the paperwork done than the others. Likewise in hospital, if you are an average person, you will not get the same treatment as the privileged. (Youth group, Ho Chi Minh City)

Many focus groups considered the use of power, connections, and corrupt means to get ahead in life and acquire better public services and employment opportunities as unacceptable and a key source of frustration. The evidence suggests that whether inequality in outcomes is viewed as acceptable or not depends more on the process by which the inequality is generated than on the level of disparity. A key concern among focus group participants in both urban and rural areas was whether existing inequalities in outcomes were generated through fair or unfair means, such as corruption, misuse of power, and dishonest business practices. Unfair use of political capital and corruption were perceived to affect well-being through multiple routes, from employment opportunities and land conversion to the ability to access high-quality public services and education.

If left uncurbed, inequalities in voice and connections that manifest themselves in myriad forms, from uneven land conversion practices to poor public service delivery, are likely to damage social cohesion, economic progress, and growth. In the perceptions study, these inequalities provoked the most concern and frustration among participants and were the focus of lengthy discussions. Inequalities in voice and connections are likely to play a role in determining whether individuals tolerate rising inequality in the future, directly through a sense of injustice and indirectly through their revised expectations of growth. This may already be occurring through a reduction in the perceived return to education in rural areas, where focus group participants suggested that their inability to translate education into employment opportunities, in part due to a lack of transparent recruitment mechanisms, has diminished their perception of the value of education for future generations.

Emerging policy recommendations

Three key messages emerge for policy makers in Vietnam.

First, income inequality has risen in Vietnam, indicating that growth processes have been less favorable to poorer households and that poorer households are being left behind. Ethnic minority households have experienced slower growth on average than Kinh majority households, although there is substantial variation among minority households depending on endowments and sources of income. There is evidence of regional variation in growth rates, which has contributed to the rise in inequality. In addition, households characterized by lower average education levels are less likely to benefit from growth processes and to transition into the nonagriculture sector than more educated households. These patterns suggest an active role for policy to help poor households to overcome the structural constraints that limit their growth potential.

Second, inequality of outcomes affects the opportunity of children to fulfill their potential, and circumstances overtake potential early in life in

Vietnam. Evidence presented in this chapter suggests that children who show promise at age five are unable to sustain that promise by age eight to the same degree as children from better-off households. Inequality in opportunities of this form are likely to dampen growth and progress in Vietnam, since they imply that the full potential and talent of Vietnamese children are not being fully achieved. It also contributes to social tensions. Closing the gap in early childhood development and education quality in Vietnam is, therefore, desirable for both equity and efficiency.

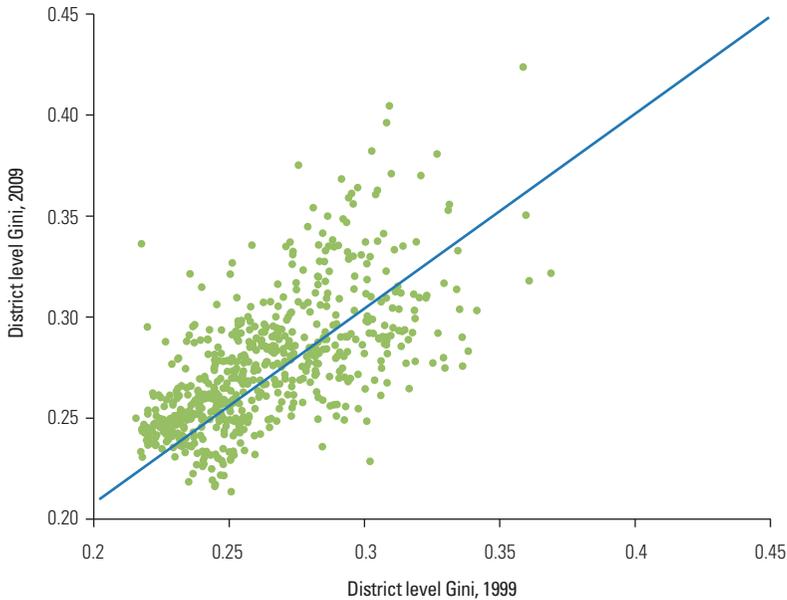
Finally, there is widespread concern that inequality in connections, influence, and voice is affecting many aspects of Vietnamese peoples' lives, including the ability of individuals to obtain public sector employment and to access good-quality public services. Vietnamese citizens from all backgrounds view these inequalities in political and social capital as unacceptable; they tolerate inequality in income and spending that is due to unfair processes less than inequality that arises through talent and hard work. Promoting transparent processes in Vietnam is necessary to ensure equitable growth—growth that is viewed as fair by all its population.

Annex 6A Why do “perceptions of inequality” diverge from empirical measures of inequality?

The empirical measure of inequality includes four components (Cowell 2011). Perceptions of inequality may differ from empirical measures of inequality due to the following considerations: (a) the factor examined, (b) the unit of analysis—that is, whether a household or individual; (c) the reference group—that is, the universe of comparison, such as inequality at the national, regional, rural, or urban level, and (d) the inequality thermometer or the tool used to capture changes in inequality, such as the Gini or Theil index. Annex 6A examines why perceptions may be different from empirical measures of inequality.

First, our measures of inequality may focus disproportionately on easily measured dimensions of inequality, such as outcomes, while Vietnamese people focus on other dimensions of inequality, such as the quality of education they receive or whether there is perceived unfairness in society. Chapter 6 discusses modalities of inequality as seen through the eyes of Vietnamese people. Not all modalities of inequality were discussed in each focus group, and the emphasis on different modalities of inequality varied substantially by group. For example, young working people often discussed employment inequalities in greater detail; ethnic minorities paid more attention to livelihood-related modalities of inequality in terms of access to market, credit, and technical services; and students and senior groups talked more about education and the unfair roles of power and connections in employment.²³

Second, perceptions may differ from empirical measures because the frame of reference used in empirical analysis differs from that used by individuals when thinking about inequality. In contrast to most empirical measures of inequality, which capture inequalities at the national, regional, rural, or urban level, perceptions of inequality are often rooted in direct life experiences and have a narrower focus. Groups often discussed disparities within their community and then conceptualized a step up from their income level to compare themselves with people in more favorable places or higher positions. For example, in contrast to the decline in inequality attributable to differences between rural and urban areas, rural respondents perceive inequality between rural and urban areas to have risen. However, in contrast to the empirical measure of inequality that compares the average level of welfare within urban areas to the average level of welfare within rural areas, participants in the focus groups compared their own rural community to nearby urban centers in the region. Since the empirical measures of inequality and perceptions of inequality are taking place at different levels of aggregation, perceptions of inequality and measures of inequality may converge at a more local level.²⁴

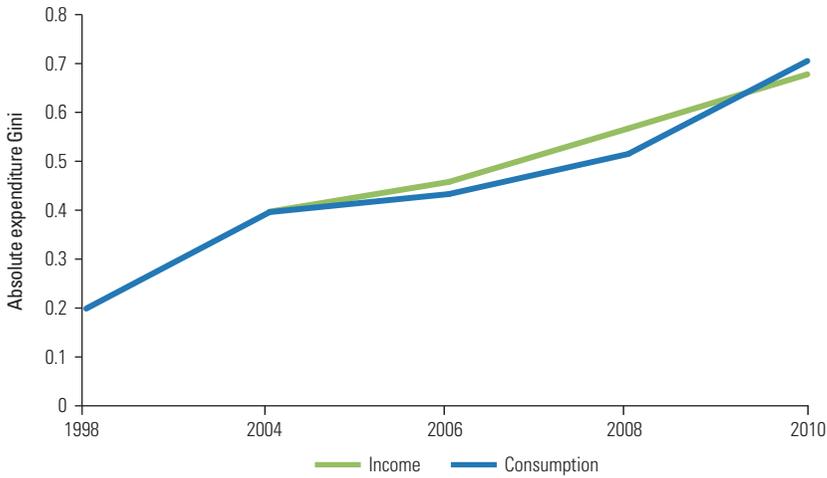
FIGURE 6A.1 District-level expenditure inequality in Vietnam, 1999 and 2009

Source: Nguyen, Lanjouw, and Marra 2012.

An empirical examination of inequality at a lower level of aggregation than normally used in a quantitative assessment may help to bridge the gap between empirical measures and perceptions of inequality. Figure 6A.1 shows inequality at a district level in 1999 and 2009, where a district is a lower unit of analysis than normally used when empirically examining inequality.²⁵ District-level inequality rose in previously low-inequality districts and fell in higher-inequality districts. While this gets closer to the unit of analysis used by our focus group participants, since the frame of reference used appears to vary substantially across individuals, it remains an approximation.

The most commonly used measures of inequality—the Gini coefficient, the class of generalized entropy measures including the Theil index, and the ratios of outcomes for people at different percentiles of the outcome distribution—capture inequality in relative terms. However, individuals may view inequality in absolute terms (Amiel and Cowell 1999; Ravallion 2004). For example, if everyone's income rises 7 percent, then relative measures of inequality will not register a rise in inequality even though the absolute gap has grown. Evidence from a developed-country setting suggests that approximately 40 percent of individuals in a study on concepts

FIGURE 6A.2 District-level expenditure inequality in Vietnam, 1999 and 2009: Absolute Gini coefficients



Source: Nguyen, Lanjouw, and Marra 2012.

of inequality thought of inequality in absolute rather than relative terms (Amiel and Cowell 1999). As shown in figure 6A.2, absolute inequality has been rising in Vietnam since 1998.

Whether individuals view inequality in relative or absolute terms is very difficult to capture, and there are only hints of this in the qualitative assessment. The suggestive evidence indicates that, in Vietnam, some individuals are likely to think about inequality in an absolute sense, while others are likely to think of it in a relative sense. Therefore, even if relative measures of inequality remain constant, some individuals will perceive inequality to be rising. For example, the following comments suggest that one focus group was discussing inequality in absolute terms, while the second was discussing it in relative terms. Whether Vietnamese people conceptualize inequality in absolute or relative terms will be examined further in follow-up work that is under way.

The group claimed that the government's move to increase the salary base at times of inflation only broadened the income gap between the better-off and the poor. Justifying the irrationality of raising the salary base in percentage terms, they cited an example where the increase is 20 percent and the poor with the lower salary will get just some dozens of thousand dong, while the better-incomed with the often higher salary base will receive additional millions of dong to their pay. (Site report, better-off residents, Phuc Xa Ward, Hanoi)

The students claimed that the rich-poor gap over the past five years has been increasingly widened due to the increasing relative gap: the rich develop faster than the poor. (Site report, student group, Linh Xuan Ward, Ho Chi Minh City)

Notes

1. We may also be concerned about rising inequality if there is a causal relationship between inequality and growth. While many theoretical models postulate a negative (and positive) relationship between inequality and growth, a comprehensive assessment of the literature suggests that the empirical evidence is inconclusive (Banerjee and Duflo 2003; Bourguignon 2004; World Bank 2006).
2. These inequalities are linked to “pockets of poverty,” whereby certain groups in the population continue to remain in poverty and poverty continues to perpetuate across generations, despite high average growth rates in the economy (VASS 2008).
3. Vietnamese poverty reduction in the 1990s and early 2000s was driven in part by strong growth in the agriculture sector, linked to the opening of agricultural markets from 1993 onward. The equitable distribution of land across the population meant that this period of growth was broad based and accompanied by a substantial rise in income in poor rural areas (Benjamin and Brandt 2002a; Ravallion and van de Walle 2008). In 2010, value added per worker was five times higher in the manufacturing and service sectors than in agriculture (calculations based on information from the *Statistical Yearbook of 2012*, GSO 2012).
4. Trimming for measurement error and then removing the bottom and top 1 percent of the income distribution reduce the magnitude of the Gini coefficients, but the trends over time remain the same; the Gini coefficient of inequality in urban areas remains fairly stable, while the Gini coefficient of inequality is higher in rural than in urban areas.
5. Since the fraction of the population in urban and rural areas, and by region, is changing over time, changes in the component of inequality may also be attributable to changes in the relative share of the population living in urban areas.
6. These figures reflect spatially deflated income and consumption aggregates. The patterns for nonspatially adjusted figures reflect a similar decline, from a ratio of 2.15 to 1.98 for income and from 2.72 to 2.57 for consumption. The higher nonspatially adjusted ratio reflects price differences between urban and rural areas.
7. The rural-urban income gap and trends in the gap vary substantially between provinces, and more recent analyses find that the gap has declined, in part, due to rural-to-urban migration. Between-group inequality consists of three factors: differences between groups in mean incomes, the number of groups, and

their relative size. Therefore, changes in the underlying population structure can make it difficult to compare decompositions over time. We therefore compare the standard measures of between inequality with the maximum possible between inequality for groups of the same size and number using the method of Elbers et al. (2008). We find that the conventional measure of inequality between regions accounts for a declining share of maximum inequality between 2004 and 2010. However, although declining, inequality attributable to differences between rural and urban areas, and between regions, continues to be an important characteristic correlated with inequality.

8. The factors discussed in the most detail in the text are those that are considered to be key factors related to rising inequality, as identified through empirical analysis and emerging from the qualitative study.
9. Among rural households, 4 percent declared having a household member who stayed away from home for more than six months over the previous year. This number appears low relative to evidence from the Population and Housing Census (GSO 2009) and misses patterns in shorter-term, longer-term, and household migration.
10. Wages are likely to include income remitted by members of the household who work in another region. Since many migrants move from rural to urban areas, the fraction of rural income coming from wages is likely to overstate the amount of wage work actually being conducted in rural areas.
11. There is substantial regional variation in the prevalence of agricultural wage work in rural areas. In the north, only 8 percent of individuals working for wages in rural areas are in the agriculture sector. In the south, nearly 29 percent of wage workers in rural areas are in agriculture.
12. High-skilled work has become disproportionately urbanized over time. In 1998, 56 percent of professional jobs were in urban areas compared to approximately 20 percent of the population; by 2010, 64 percent of professional jobs and 30 percent of the population were in urban areas.
13. The income structure of the richest quintile of the urban population has converged on the structure of the poorer groups over time. In 1993 and 2004, the income composition of the top 20 percent was quite different from that of the rest of the population; business incomes were a much larger share of income for the top quintile and the share of income from wage sources was the smallest. By 2010, the top quintile looked more similar to other groups; their share of wage income rose from 38 to 49 percent of income between 1998 and 2010, while the share of income from business sources declined from 37 to 28 percent. These trends continue patterns seen in the 1990s; in 1993, the upper quartile of the income distribution earned nearly 60 percent of their income from a home business and only 10 percent from wages (Benjamin, Brandt, and McCaig 2009).
14. Labor market participation also changed over this period. In 1998, 90 percent of individuals between 18 and 65 years of age reported working compared to 84 percent in 2010, while the fraction of the working-age population rose over

- time, from 54 to 64 percent between 1998 and 2010 (calculated from the 1998 VLSS and 2010 VHLSS).
15. Agricultural sideline activities, notably livestock, aquaculture, and agricultural services, are the least equalizing of all agricultural sources and contribute more to income inequality than crop income. This is corroborated by the structure of income across income quintiles: sideline activities continue to be an important source of income for both rich and poor households.
 16. Persons with upper-secondary education and above are still likely to be found doing unskilled work in rural areas, either in the agriculture sector or as an unskilled manual laborer in the nonagriculture sector. In the qualitative assessment, focus groups in rural areas discussed instances where individuals who had obtained some higher education were unable to find skilled work (either lower- or higher-skilled work) and hence returned to farming. They attributed this worrying observation to differences in the quality of education between urban and rural areas and to students choosing fields of study, such as pedagogy, for which labor market demand is limited.
 17. The returns to education have risen substantially over time, driven largely by urban areas. Assessments of the average wage earned by individuals with different levels of education find low rates of return to education in the early 1990s. In 1993, the return to education using a basic Mincerian earnings equation was approximately 4 percent (Gallup 2002; Glewwe and Patrinos 1999). Although low by international standards, they were similar to rates of returns found in China in the early 1990s (Psacharopoulos 1994).
 18. For an excellent discussion of inequalities in these other important dimensions, see VASS 2011).
 19. Income is also likely to be related to unobserved correlates such as local returns to education, which are likely to have a positive influence on educational decisions. Furthermore, income is unlikely to reflect a true liquidity constraint since households also have access to savings and formal and informal credit institutions.
 20. Due to changes in the sampling frame between 2008 and 2010, it is not possible to compare the progress achieved between 2002 and 2008 to that achieved between 2008 and 2010. Therefore, access to improved sanitation facilities is analyzed separately for 2010.
 21. Quantitative evidence suggests mixed trends in reported corruption, as would be expected (World Bank 2010). Surveys of firms suggest that corruption is less of an obstacle for their operations, but the magnitude of bribes, as a percentage of revenues, has not declined. Individual reports from household surveys suggest that, while citizens do not find that corruption has worsened, neither has it improved (World Bank 2010).
 22. In 2010, the public sector (including state-owned enterprises and civil servants) accounted for only 4 percent of nonagricultural work and 15 percent of wage or salaried jobs, but 52 percent of high-skilled jobs in rural areas. In urban areas, public sector jobs accounted for 9 percent of all nonagricultural work,

- 28 percent of wage or salaried jobs, and 42 percent of high-skilled jobs. Ho Chi Minh City has the highest private sector opportunities in the nonagriculture sector, while the northwest mountains region has the lowest private sector opportunities for highly skilled wage or salaried work.
23. Another concern is that the incomes or expenditures of the rich are underreported and undercaptured in household surveys. Therefore, empirical measures of inequality may be downward biased (Cowell 2011; VASS 2011).
 24. People may not compare mean levels of welfare, but instead compare the richest people in urban areas with the richest, or poorest, in rural areas.
 25. District-level inequality was computed using small-area estimation techniques. See Benjamin, Brandt, and McCaig (2009) for more details.

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