

Poverty, Inequality and the Non-farm Economy: The Case of Rural Vietnam

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Abstract

Most Asian economies have made huge progress in poverty reduction in recent years and Vietnam especially is one of the showpieces in income poverty reduction. Furthermore, the transition from a centrally planned economy towards an open market economy has resulted in successes in many fields. Despite these overall achievements, regional and provincial disparities remained and in some cases even increased. Poverty in remote regions is still at high levels, and privatization has been successful mainly in the boom regions of Hanoi and Ho Chi Minh City.

With agricultural production being constantly faced with environmental hazards like droughts, flooding and crop/livestock pests, the rural non-farm economy becomes a key component in poverty reduction strategies, especially in rural areas. By providing additional income sources to the rural population, the non-farm economy will serve as one means of increasing the resilience of these households to setbacks. Besides providing the opportunity to diversify income, wage employment in the non-farm economy will increase incomes, as wages are generally higher than in the agricultural sector.

Three data sources are utilized to investigate the influence of non- and off-farm income sources on poverty and inequality in rural areas. These are (i) a dataset of about 2,200 rural households in three remote provinces of Middle Vietnam, (ii) about 130 medium- and large-scale companies and (iii) a panel dataset of about 3,200 rural households from all provinces of Vietnam.

The analysis leads to the finding that besides generally known influential household characteristics, increased off-farm income shares, even in remote regions, increases household incomes and consumption asset holdings. Furthermore, inequal-

ity among households with higher shares of income apart from farming activities is less pronounced. Using the broader panel data for the whole of rural Vietnam, the intertemporal dimension with regard to income structure has been added. Based on the same household types used in the focused analysis of the three provinces, the changes in income portfolios were analyzed for the 2002–2004 period. The results showed that households' income structure is extremely volatile, with households changing from pure agricultural production to pure non-farm employment as their means of generating income. Based on these results, households were grouped according to their 2002 and 2004 portfolios, and the concept of pro-poor growth was used to investigate their performance. The results showed that households changing their income sources were worse off in terms of poverty and income when compared to non-switching households, for the first period. The positive assessment is based on their intertemporal performance of poverty and inequality reduction due to their higher growth rates.

Considering the lower poverty rates for households that generate higher shares of income from sources other than farming, and the better performance of households that adjust their income portfolio, the provision of alternative sources of income in the non-farm sector was found to be central to poverty reduction in rural areas. Therefore, company data were analyzed, aiming at the identification of the bottlenecks in their growth. Based on the special characteristics of Vietnam as a transition economy, the focus was set on institutional factors. In terms of employment and profit, these factors were shown to have an influence on companies' performance. Furthermore, the conditions in the research provinces, although all of them are in Middle Vietnam and among the poorest of the Vietnamese provinces, are considerably different. Based on their different history and location and current conditions, the needs of companies are very different. Besides their common need for skilled workers, some require better infrastructure to connect to the markets, some lack reliable regulation by the provincial governments and some others need a more open minded pro-private business attitude by the local authorities.

All in all, improvement of the local conditions of doing business are of central importance for the reduction of rural poverty and the reduction of inequality within the country. Furthermore, a "one strategy fits all" solution on how to achieve

ABSTRACT

increased investments and growth in remote provinces cannot be given due to the different needs and conditions.

Keywords: Rural Vietnam, Poverty, Household income composition

Zusammenfassung

Die meisten asiatischen Staaten haben in den letzten Jahren enorme Fortschritte im Bereich der Armutsreduzierung gemacht. Vietnam stellt in diesem Prozess eines der Musterbeispiele dar und hat die Millenniumsziele der Vereinten Nationen zum Teil schon heute erreicht. Auch die Bemühungen im Rahmen des Transformationsprozesses, von einer zentral organisierten Planwirtschaft hin zu einer offenen Marktwirtschaft, zeigen bereits Erfolge. Trotz dieser beeindruckenden Bilanz gibt es auch hier noch viele Regionen die noch nicht von diesen Erfolgen profitieren konnten. Immer noch gibt es Gebiete in denen Armut weit verbreitet ist und die Privatisierung von Staatsunternehmen aufgrund von geringeren Marktchancen wenig erfolgreich verlief. Die Erfolgsregionen sind hauptsächlich in den ökonomischen Zentren um Hanoi und Ho Chi Minh zu finden.

Des Weiteren ist die landwirtschaftliche Produktion speziell in den Küsten- und Bergregionen permanent der Gefahr von Umwelteinflüssen wie Dürren, Überflutungen, Pflanzenschädlingen oder Tierseuchen ausgesetzt. Daher werden Beschäftigungsmöglichkeiten im außerlandwirtschaftlichen Bereich als Schlüssel zur Armutsreduzierung gerade in ländlichen Räumen angesehen. Neben den in der Regel höheren Löhnen, die in diesem Bereich erzielt werden, würden diese der ländlichen Bevölkerung weitere Einkommensquellen öffnen und somit ihre Anfälligkeit gegenüber Rückschlägen in anderen Bereichen reduzieren.

Um die Einflüsse von Beschäftigungen außerhalb der selbstständigen landwirtschaftlichen Produktion zu analysieren, werden hier drei Datenquellen herangezogen. Diese sind: (i) ein Datensatz von circa 2.200 ländlichen Haushalten aus

drei der ärmsten Provinzen Vietnams, (ii) Daten von ungefähr 130 großen und mittleren Unternehmen in denselben Provinzen und (iii) ein Paneldatensatz von nahezu 3.200 Haushalten aus ländlichen Gebieten ganz Vietnams.

Basierend auf Datensatz (i) wurde verdeutlicht, dass neben oftmals fokussierten Haushaltseigenschaften gerade höhere Anteile an Einkommen aus Angestelltenverhältnissen oder selbstständiger außerlandwirtschaftlicher Tätigkeit das Einkommen und die Konsumgüterausrüstung von ländlichen Haushalten zu einem großen Teil beeinflussen. Außerdem ist die Ungleichverteilung von Einkommen im Vergleich zu landwirtschaftlichen Haushalten weniger stark ausgeprägt. Aufbauend auf diesen Ergebnissen werden die Paneldaten (ii) genutzt, um die Veränderungen der Einkommensstruktur im Zeitverlauf zu untersuchen. Die Ergebnisse für die Periode 2002–2004 zeigten, dass die Einkommensstruktur sich in vielen Fällen erheblich veränderte. Diese Veränderungen sind teils extrem und Haushalte wechseln ihr Portfolio vollständig von reiner landwirtschaftlicher Produktion hin zu einer komplett von der selbstständigen Produktion abgewendeten Zusammenstellung. Im Folgenden wurden die Einkommenszuwächse und ihre Verteilung über die Einkommensperzentile betrachtet. Die Ergebnisse zeigen deutlich, dass Haushalte die ihr Portfolio angepasst haben, wesentlich besser abschneiden. Sie realisieren höhere Wachstumsraten sowie höhere Armutsreduzierung. Allerdings waren diese Haushalte in der ersten Periode mit zum Teil wesentlich niedrigeren Einkommen und somit höheren Armutsraten konfrontiert. Insgesamt zeigte sich jedoch deutlich der positive Einfluss von Beschäftigungen außerhalb der selbstständigen landwirtschaftlichen Produktion selbst für Haushalte in entlegenen Gebieten, in denen sich Beschäftigungsmöglichkeiten in der Regel auf benachbarte Farmen reduzieren.

Daher wurde im Folgenden die Entwicklung nicht landwirtschaftlicher Betriebe betrachtet. Diese stellen die Basis für Wachstum und Beschäftigungsmöglichkeiten der Bevölkerung dar und sind somit zentraler Bestandteil einer Armutsreduzierungsstrategie. Bei der Analyse der Engpassfaktoren dieser Unternehmen wurde aufgrund der Situation Vietnams als Transformationsland speziell auf Institutionen eingegangen, da diese einen zentralen Bestandteil des Veränderungsprozesses bilden. Diese Faktoren zeigten einen deutlichen Einfluss sowohl auf die Beschäftigtenanzahl als auch auf den Gewinn der Betriebe. Es zeigte sich, dass sich trotz der großen Gemeinsamkeiten der drei Provinzen das Umfeld und besonders die Qualitäten

der Provinzregierungen deutlich unterscheiden. Mit Ausnahme eines Mangels an qualifiziertem Personal, das in allen Provinzen eine große Rolle spielt, sind auch die Bedürfnisse sehr unterschiedlich. Die anderen Faktoren, die nur für jeweils einen der Standorte eine Rolle spielen, sind Mängel an der Infrastruktur, der Verlässlichkeit lokaler gesetzlicher Regelungen sowie an der Anerkennung privater Unternehmertums.

Zusammenfassend ist die Verbesserung der lokalen Strukturen und Bedingungen für Unternehmen und ein nachhaltiges Wachstum der Wirtschaft von enormer Bedeutung im Abbau von regionalen Disparitäten und Armut in ländlichen Gebieten. Allerdings zeigte sich auch, dass eine "one strategy fits all"-Lösung nicht existiert und immer die regionalen Bedingungen und Strukturen berücksichtigt werden müssen, um Investitionen auch in weniger entwickelten Regionen attraktiv zu machen.

Schlagnworte: Ländliches Vietnam, Armut, Zusammensetzung von Haushaltseinkommen

Table of Contents

Abstract	i
Zusammenfassung	iv
Table of Contents	vii
List of Symbols and Abbreviations	x
List of Figures	xiii
List of Tables	xiv
1 Introduction	1
1.1 Background	2
1.2 Objectives of this study	5
1.3 Composition of the thesis	6
1.4 Background of the study and data used	7
2 Poverty and the Rural Non-farm Economy	10
2.1 Introduction	11
2.2 Poverty in Vietnam	14
2.3 Household survey design and data	17
2.4 Conceptual framework	21
2.5 Poverty in the research provinces	24
2.5.1 General characteristics of the households	24

TABLE OF CONTENTS

2.5.2	Determinants of being income poor in the research area	31
2.6	Summary	39
3	Rural-Rural Differences in Pro-poor Growth	41
3.1	Introduction	42
3.1.1	The concepts of measuring pro-poor growth	42
3.1.2	Previous empirical work on pro-poor growth	44
3.2	Objectives and data used	47
3.3	Pro-poor growth in Vietnam 1993–2002	47
3.4	Pro-poor growth in rural Vietnam 2002–2004	52
3.4.1	Short term poverty dynamics and household income portfolio	52
3.4.2	Short term pro-poor growth performance across household types	59
3.5	Summary	67
4	Governmental Quality and Company Performance	69
4.1	Introduction	70
4.2	Vietnam’s economy	71
4.3	Institutional economics and transition economies	74
4.3.1	Political economy approach	74
4.3.2	Transaction cost based considerations	76
4.3.3	The special case of institutions in a transition economy	78
4.3.4	Empirical applications of the institutional economics concepts	81
4.4	Objectives and data used	85
4.4.1	Objectives of this chapter	85
4.4.2	Survey design and data	86
4.5	The effect of the institutional factors on the performance of the rural non-farm economy	88
4.5.1	Description of the surveyed companies	88
4.5.2	The provincial business environments	91
4.5.3	The perception of the business environment and the perfor- mance of the companies	95
4.5.4	Effects of the business environment perceptions	97
4.6	Summary	107

TABLE OF CONTENTS

5	Conclusions and Recommendations	109
5.1	Summary and conclusions	110
5.2	Further research	120
	Bibliography	123
A	Appendices	136
A.1	World market coffee price monthly averages.	137
A.2	Regression variable description	138
A.3	Regression variable correlations	139
A.4	Household typology changes and poverty rates.	140
A.5	T-test poverty differences by switchtypes.	141
A.6	Further growth incidence curves.	142
A.7	The questionnaire used for the company survey	143
A.8	Variables used in the regressions.	152
A.9	Descriptive statistics for variables used in the regressions.	153
A.10	Regression variable correlations.	154
A.11	PCI scores of Vietnam's provinces.	155

1.1 Background

With growing public attention paid to the problems of increasing inequality and slow progress toward reaching the Millennium Development Goals (MDG), especially in Africa, [United Nations, 2006] but also in Asia, the question emerges: will the poor ever be able to catch up in the process of global growth? Although the South-East Asian (SEA) region has already more than accomplished the goal of reducing the proportion of people living on less than \$1¹ per day, the same success concerning the proportion of people suffering from hunger has not yet been achieved [United Nations, 2006]. More generally, the Asia-Pacific region is still home to about two thirds of the world's poor, emphasizing the task that still remains [United Nations, 2007].

Economic theory predicts convergence, and actually the inequality across countries did decline in the 1970–2000 period. Yet, worldwide within country inequality rose [Sala-i-Martin, 2006] especially in developing countries [Schätzl, 2003; Shankar and Shah, 2001; Venables, 2003; World Bank, 2003]. The extreme rural/urban differences are one influential cause for this problem as the majority of poor people live in rural areas of developing countries. This emphasizes the importance of designing successful strategies for the development and strengthening of these regions [United Nations, 2005a]. The share of poor people living and/or working in rural areas is estimated at 75% [United Nations, 2005a]. The situation in the Asia and Pacific region is slightly more equal between rural and urban areas with only 70% of the poor population living in rural areas. However, taking the case of Vietnam, where this share was estimated to be 92.3% for 2002 [United Nations, 2007], the picture changes, and for Vietnam the importance of the urban/rural divide becomes even clearer. Therefore, effective strategies to overcome extreme poverty all over the world need to consider the particular characteristics of rural areas to adequately meet the needs of the rural poor.

Besides the already higher poverty incidences and severity in rural areas, environmental shocks will affect mono structured regions, like the mostly agricultural

¹\$1 was about 16.500 Dong during the time of the survey [Association of German Banks, 2008, 11.01.2008]. \$1 PPP converts to 4713 Dong [ICP, 2008]. (These conversion rates are applied throughout the thesis.)

dominated rural areas in Vietnam, even more and will therefore further increase the disparities [Duncan and Pollard, 2002].

One prominent and widely discussed path out of poverty is income diversification of rural farmers into the *rural non-farm economy* (RNFE) via wage- or self-employment. The connection between the poverty status of households and their participation in the RNFE has been the subject of multiple theoretical and empirical studies over the last decade, and these mainly concluded that participation in the non-farm economy contributes to poverty reduction in developing countries. Furthermore, the promotion of wage-employment in remote and low income areas is a successful strategy in overcoming income inequalities within a country [Collier, 2007; Schupp, 2002]. In developing countries in particular, agricultural production is constantly endangered by adverse environmental conditions such as droughts, crop pests and animal illnesses. Additionally, high reliance on subsistence as well as few (often only one) marketed products makes these households especially vulnerable as they are therefore heavily dependent on a price that fluctuates widely and often on short notice [Dercon, 1996; Dercon and Krishnan, 1996; Reardon, 1997].

That is why the rural non-farm economy and its spatial dimension has been identified as a priority for future research aiming at reducing the vulnerability of those households [Haggblade et al., 2007b] especially there are relatively few studies disaggregating rural non-farm activities using household data [Reardon et al., 2007]. Generally, off- and non-farm employments are considered to result in higher and especially more stable income as compared to farming, due to less exposure to environmental conditions [Dercon, 2002].

Nevertheless, in order to overcome the extensive differences within developing countries, the agricultural sector is often focused on as it is the main basis for rural income generation. However, as elaborated above, the rural non-farm economy plays a key role in rural development. As smallholder farms dominate agricultural production, the demographic pressure will soon reduce farm sizes to an extent that will further undermine the possibility of survival from smallholder farming. Here, the non-farm economy has to enrich the rural economy and provide additional income sources for the population. Promoting the already dynamic rural non-farm economy, especially outside the major cities, and linking those to the markets will

not only benefit the non-farm sector but will also improve the competitiveness of agricultural markets and additionally support the poor [World Bank, 2007b].

Even though the jobs created by a newly developing rural industrialization will not be "wonderful" at first, they will improve the living conditions of the rural poor. Once enough jobs are available, the benefits will spill over to the families of the workers and their communities, and the rural economy will start to grow [Collier, 2007]. Not only researchers, but also the poor, know that self- and wage employment opportunities are the most promising path out of poverty [Narayan et al., 2000]. However, one should not lose sight of agricultural development as it is still constitutes the basic livelihood of many poor people and furthermore ensures the food supply of most developing countries [World Bank, 2007b].

In Vietnam the RNFE slowly gained ground [Minot et al., 2006] and poverty reduction was mostly successful, giving Vietnam an "enviable position among the developing countries" [Minot et al., 2006, p.1]. During the period 1992–1998 Vietnam reduced poverty rates by 4% a year which is about double than the average 2% Asian average, leading to Vietnam already achieving the Millennium Development Goal of halving income poverty.

Nevertheless, there remain several issues to be resolved [van de Walle and Cratty, 2004]. The main problem in Vietnam is still the increasing disparities between the successful and growing Delta regions (Mekong Delta and Red River Delta) and rural areas - in particular the Upland regions. These regions are characterized by poor infrastructure, high reliance on the agricultural sector and a large share of ethnic minorities [Minot et al., 2006]. Especially in Middle Vietnam and along the 3,444 km coast line [CIA, 2009], households are very vulnerable to environmental risks that mainly affect agricultural production. These regions are prone to typhoons, storm surges, flash floods, drought and saline water intrusion for the coastal areas, and flash floods and landslides for the mountainous areas in central Vietnam [Chaudhry and Ruyschaert, 2007].

1.2 Objectives of this study

The overall objective of this study is to investigate the influence of non- and off-farm employment participation of the rural population in some of the least developed regions in Vietnam on poverty, growth and inequality. Furthermore, the possibilities of growth for the rural companies that offer such wage employments will be explored. The specific objectives are:

1. Quantify the extent of non- and off-farm reliance in rural areas in one of the least developed regions in Vietnam, i.e. Middle Vietnam.
2. Identify the characteristics that determine the welfare status of rural households in Vietnam with special focus on their income portfolios.
3. Identify the extent of short-term fluctuations in the income portfolios of households in rural areas of Vietnam.
4. Investigate the differences in the pro-poor growth performance, not only across provinces, but extend previous research by taking the income portfolios of households into account as a further parameter.
5. Thereby shed light on the difference in the extent to which farming, off-farm employment and a mixture of these two income sources benefits the poor.
6. Examine the extent of differences in the institutional settings, i.e. infrastructure, governmental quality and transaction costs, among three remote provinces in Vietnam.
7. Explore the effects of these possible differences on the economic performance and employment generation of the companies operating in those provinces.