

ECONOMIC DEVELOPMENT AND RICH-POOR DIFFERENCE IN HCMC

1. The process of economic re-structure and development in HCMC

The sixth National Congress of the Vietnamese Communist Party in December 1986 launched economic reformation and determined to build the country's multi-sectoral market economy under the socialist orientation. Since then, HCMC has been a pioneer in expanding market relations. In particular, from 1990 until now the city economy has become stable and grown year after year and the public living standard has increased substantially. Its GDP growth rate was 12% annually on average in 1990-1997, three times higher than before and its per capita GDP reached US\$1,119 in 1997, tripling the country's average. The city industrial production has surpassed many obstacles such as capital shortage; backward technology and technique; and local market dominated by foreign goods. The industrial output value rose 16.0% annually over the past five years. The export earnings totaled US\$1,549 billion only in 1992, but soared to US\$4.2 billion in 1997, up 22.1% per year. The import spending was US\$1.05 billion in 1992, but increased to US\$3.9 billion in 1997, up 30.0% per year. The farming production grown 4% annually although farming land was reduced because of urbanization. The city economy saw a significant re-structure. The industrial share in GDP increased from 39.69% in 1991 to 42.3% in 1997; trade and services percentage decreased slightly from 56.05% in 1991 to 55.4% in 1997 but the farming sector dropped from 4.26% in 1991 to 2.4% in 1997. The city economic structure steadily shifts to manufacturing although the current trade and services sector remains high ratio.

The economic sectors have changed remarkably. The state-run sector though facing many difficulties but still plays an important role

in the economy. However the share of state sector fell sharply due to effects of new policies allowing non-state sectors to develop. The contribution to GDP from the state sector went down from 53.5% in 1991 to 46.9% in 1997. The vital non-state sector attracted some 78% of the labor force. Currently, the private sector generates nearly 38.0% of GDP, 32.1% of total investment capital and 10.4% of state budget revenues via sales and profits taxes. The foreign-invested sector saw a boom. The number of foreign investment projects amounted to 677 in HCMC by Dec31, 1997. The GDP growth rate in the foreign-invested sector was 25% in 1991-1997 and its GDP is accounting for 15.7% of the city GDP.

The distribution of national income between saving and spending has changed actively. The property accumulation increased from 12.9% of GDP in 1991 to 36.2% in 1997. Of the total investment capital, the funds from state budget made up 10% and the remaining 90% came from joint ventures, private businesses and self-accumulated funds of state companies. The money invested in capital construction took a rather large percentage (43.5%). This can make favorable conditions for industrialization and modernization. In recent years, the building of infrastructures of transport, post, telecommunications and housing has been reinforced. The investments in transport rose 200% and post 300% per year although the growth remained modest as compared with requirements.

The city success in economic development will be indicated by following figures:

By 1997, as compared with the whole country, although the city makes up 0.6% of the natural area; 6.67% of the population; 18% of total fixed assets but it generated 24.6% of the country's GDP, over 29% of industrial output value; 25% of services value; over 54% of total

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export earnings and 30% of the state budget revenues. This shows the city has made great efforts to tackle challenges and develop.

The positive effects of economic growth on social life are to improve the local residents' living standard. The per capita GDP soared from US\$552 in 1990 to US\$1,119 in 1997 although the population growth rate is rather high (above 3% per year). The average income of a worker increased year after year, rose to above VND600,000 per month in 1997, up 150% over 1992. This increased the public purchasing power. The spending on goods and services grew 18.5% per year while the consumer price index was 101.6%. The facilities in households also saw progress. In 1997, of 100 households, 87.5 have television sets; 58.1 have video cassette players; 80.3 have radio cassette players; 73.7 have motorbikes; and 39.3 have refrigerators. In 1990-1997 the home facilities rose 15% per year. The housing increased 5.7% annually.

The economic growth also helps raise the social welfare in education, health care and culture. The city budget revenues extended by 35% per year in 1990-1994. The GDP percentage of investments in education, health care, science and culture also expanded over the past 4 years, up 15-16% on average. The results have partly improved the teaching and learning quality, health care network and recreational and cultural activities in the city.

The city has created many jobs to workers over the past years, especially in non-state sectors with 100,000 new jobs every year, including 80,000 permanent jobs.

However, the other side of the market economy also caused certain negative effects on social life. One of them is the difference between rich and poor residents. This problem will be discussed in details below.

2. Facts of the rich-poor difference

In HCMC

Since the Party and Government introduced new economic policies allowing various sectors to exist and grow, the HCMC market economy has experienced a boom. The city has so far generated a great number of entrepreneurs, over 9,000 private firms, 30,000 production units and 150,000 trading households. Nevertheless, it has also widened the rich-poor difference. This effect is also attributed to shortcomings of the policies and legal frame.

The difference in HCMC are divided into three main aspects:

- Difference between urban and rural areas
- Difference between social strata

The sample includes 900 households (780 in inner city, 120 in suburbs). The result is as follows:

The households living in inner city have total incomes (from jobs, properties, capital) 8 times as many as those in suburbs; or 8.6 if calculated by person; job earnings 3.2 times; and calculated by person 3.3.

Especially for assets (housing and home appliance) and production capital, there is a large gap between inner city and outskirts. On average, the value of assets and production capital of a suburban household is VND29,923,000 while the comparative household in inner city reaches VND325,287,000, or 11 times higher (Table 1).

home appliances also double those of suburban families and 3.2 times by person.

2.2 Difference between economic sectors

The households can be divided into three groups: farmers, workers, and entrepreneurs.

There are 792,049 households including 556,827 in inner city, accounting for 70.1% and 235,222 in suburbs, or 29.9%. If divided into economic activities (farming, working and doing business), the farming households (category 1) reach 103,804 or 13.1%, workers (category 2) 613,231 or 77.4% and registered businesses (category 3) 75,014 or 9.5%. (See table 3 next page)

Table 1: Difference in Income, Assets between Inner City and Outskirts

Area	Total earnings + assets + capital VND1,000/ household	Total earnings + assets + capital VND1,000/ person	Total earnings VND1,000/ household	Total earnings VND1,000/ person	Total assets + capital VND1,000/ household	Total assets + capital VND1,000/ person	Housing area m ² /household	Housing area m ² /person
Outskirts	44,957	7,823	15,034	2,616	29,923	5,197	56	10.0
Inner city	373,205	67,383	47,698	8,661	325,237	58,722	67.6	12.2
Gap by household (times)								
Outskirts	1	1	1	1	1	1	1	1
Inner city	8	8.6	3.2	3.3	11	11.3	1.2	1.2

Table 2 Difference in Assets between Inner city and Outskirts

Area	Capital				Housing value				Other assets value			
	VND 1,000/ household	Gap by times	VND 1,000/ person	Gap by times	VND 1,000/ household	Gap by times	VND 1,000/ person	Gap by times	VND 1,000/ household	Gap by times	VND 1,000/ person	Gap by times
Outskirts	959	1	167	1	18,071	1	3,144	1	18,895	1	1,896	1
Inner City	71,670	74.73	12,940	77.5	218,671	12	39,481	12.56	34,895	1.85	6,300	3.32

- Difference between industries

The difference in living standard between urban and rural areas is indicated by percentages of rich, medium and poor households; spending level of each group in the inner city and outskirts.

The survey conducted by the HCMC Economics Institute in 1995-1996 reflects the facts of the city rich-poor difference as follows:

2.1 Difference between urban and rural areas

* Difference in incomes and assets

If taking into account the HCMC poverty line in 1995-1996 (US\$15), the poor living under this line makes up 46.6% in suburbs and 16% in inner city.

* The gap in assets (capital, housing, home appliances) between inner city and outskirts is substantial. The production capital of an average household in inner city is 74.73 times higher than that in outskirts, and 77.5 times if calculated by person. The assets (housing) of inner city families are 12 times as many as those in suburbs. Their

- The category 3 (business household) has total earnings and assets value 25.31 times as much as those of the category 1 (farming household), the category 2 (working households) has total value of earnings and assets 4.67 times higher than those of the category 1. If calculated by person, the category 2 has total value of earnings and assets 4.79 times as much as those of the category 1 and the category 3; 27.64 times higher than those of the category 1.

- The category 2 has annual

Table 3: Difference in Incomes and Assets by Category

Household	Total earnings + assets + capital VND1,000/ household	Total earnings + assets + capital VND1,000/ person	Total earnings VND1,000/ household	Total earnings VND1,000/ person	Total assets + capital VND1,000/ household	Total assets + capital VND1,000/ person	Housing area m ² /household	Housing area m ² /person
Category 1	44,957	7,823	15,034	2,616	29,923	5,197	56	10.0
Category 2	209,741	37,470	25,557	4,566	184,184	32,904	59	11.0
Category 3	1,138,037	216,242	152,829	29,040	985,208	187,202	106	20.2
Gap by times								
Category 1	1	1	1	1	1	1	1	1
Category 2	4.67	4.79	1.70	1.75	6.16	6.33	1.05	1.10
Category 3	25.31	27.64	10.17	11.10	32.92	36.02	1.89	2.02

incomes 1.7 times as much as the category 1, and the category 3 has annual incomes 10.17 times as much as the category 1. If calculated by person, the gap is greater. The average income of a person in the category 2 is 1.75 times as much as that in the category 1 and a person in the category 3 has an income 11.1 times higher than that in category 1.

The household in the category 2 has capital and assets value 6.16 times as much as that in the

of rich people, Group 1 (20% of the observed population) accounts for 68.8% of the total income while Group 2 (20% of the population) makes up 3.5% only. The gap between Group 2 (near-poor) and Group 1 is 1.8 times; Group 3 (medium) and Group 1: 2.5 times; Group 4 (near-rich) and Group 1: 3.6 times. In particular, the difference between Group 5 and Group 1 is substantial; 19.5 times. By the world calculation, that means the rich-poor difference between social strata in HCMC is

0.9%. As a result, the asset gap between rich and poor is 94.6 times. These figures give the large rich-poor gap in HCMC (while it is 9.8 times in Singapore and 5 times in Canada).

Other results from the survey reveals rich people of Group 5 in HCMC are traders and officials who can earn money from privileges of the Government's former subsidization policies, for example, rents from houses granted by the State, those regularly receiving aids from their relatives living abroad... Those having medium living standard are mostly workers, and the poor group includes families having many children, no skill and no permanent jobs...

3. Effects of the Government's policies on the rich-poor difference

These above mentioned data indicate the difference between 20% rich and poor population are 20 times in incomes and 90 times in assets. The percentage of poor households in rural suburbs reached 46.6%

Table 4 Observed Rich-poor Difference In Incomes

Group (20% of the population)	Annual income (VND1,000)	Percentage of the total	Gap (times)
Group 1	1,429,832	3.5	1
Group 2	2,538,246	6.3	1.8
Group 3	3,535,840	8.7	2.5
Group 4	5,155,382	12.7	3.6
Group 5	27,871,585	68.8	19.5
Total	40,530,885	100	

category 1; the category 3 has capital and assets value 32.92 times as much as the category 1. If calculated by person, the capital and assets value of a person in the category 2 is 6.33 times as much as that in the category 1, in comparison between the categories 3 and 1, the figure is 36.62 times.

2.3 Difference between social strata

In the world calculation of rich-poor difference, the whole observed households are divided into 5 groups which have the same number of persons and each group represents a level of per capita income. Accordingly, the survey on living standard of 900 residents in HCMC gives following data:

The above table shows the income

Table 5: Observed Rich-poor Difference In Assets

Group (20% of the population)	Total assets value (VND1,000)	Percentage of the total	Gap (times)
Group 1	1,952,976	0.9	1
Group 2	7,257,900	2.9	3.7
Group 3	16,824,917	6.8	8.6
Group 4	36,012,894	14.6	18.4
Group 5	184,679,028	74.8	94.6
Total	246,727,715	100	

19.5 times (68.8%/3.5%). If taking assets value into account, this gap is much larger.(see Table 5)

Table 5 indicates the assets value of the rich group accounts for 74.8% of the total while that of the poor group makes up only

far higher than 16.0% in inner city. The fraction of medium households is 64.0% in inner city and 41.1% in suburbs. The percentage of rich households is 20% in inner city (including 8.4% having large assets) and 12.4% in outskirts. The

gap between residents' spending in inner city and outskirts is 2.2 times.

The rich-poor difference between social strata are thus very large. Rich people having too high living standard include big traders, firm owners, directors, key managers of big companies. Those having rather high and stable living standard are mostly small traders, high-income government officials and those regularly receiving aids from their relatives living abroad. Those having medium living standard are mostly civil servants and typical workers. Poor people include those having many children, no permanent jobs, retirees, and old people who lack supports from relatives. Those living under the poverty line involve unskilled workers having many children, farmers possessing less land and beggars...

The market economy makes many households become rich because they know how to develop their family business tradition and career. However, not a few people make rich by taking advantages of deficiencies in legal infrastructure and in contrast, many households become poor due to lack of proper and timely support policies and institutions. For example, after a long period of applying wrong policies on wages and income distribution, the life of teachers, civil servants and retirees worsened day after day due to their too low wages. Meanwhile, in state-owned trade and service companies which produce high profits, many managers enjoy high incomes including legal and illegal ones which are uncontrollable. Many people have done illegal businesses, evaded tax and embezzled public assets. The Government has not been able to control every source of income, so the Income Law is less effective, limiting the income regulation to create assistance funds for the poor.

The rich-poor difference is inevitable in the market economy. However, the Government should have policies to regulate and control incomes as well as social programs helping the poor minimize the gap.

4. Proposals on macro-level policies

As noted earlier, the income gap between social strata in HCMC is large and increasing. The view on improving the public living standard, eradicating poverty and narrowing the gaps between social strata does not mean to restrict those who are making rich legally.

The question is how to motivate everybody to make rich lawfully and reduce the number of people living under the poverty line as well as raising gradually their living standard. To reach this target, the Government's policies will play a decisive role. In our opinion, macro-level policies include taxes and social programs on job creation and unemployment support, education, health care and housing for the poor.

* Tax policies

As we know, tax is the Government's tool to moderate incomes and implement the social equity in distribution. There are direct and indirect taxes. The indirect taxes are those imposed on income using, spending including sales tax, special consumption tax, export-import duties...The direct taxes are those levied on individual and corporate incomes including income tax, property tax, inherit right transfer tax, land use tax and land-use transfer tax...nevertheless the tax revenues have not yet meet the requirements for spending and thus cannot increase funds for social programs. Our taxes though high but lacks strict control, so leading losses due to tax evasion, especially for income and profits taxes. The income tax have direct effects on living standard moderation but its collection accounts for just 6.9% of the total revenues in HCMC. In the meantime, the spending on social welfare (education, health care, cultural activities) makes up 15% of the total local expenditure. This results in shortage of assistance funds for the poor. To reduce the income gap between social strata, we suggest the macro-level policies should generate social funds from income tax.

* Job policy and employment security

At present, developed countries have unemployment support funds. As noted earlier, the poor people are currently unemployed or working in unstable jobs. Therefore, to reduce the number of poor population is to offer jobs to the poor. These policies include capital assistance to generate more jobs, free training...In the market economy, there are certainly competition and changes in the labor market. The people should be secured a minimum living standard to seek new jobs. This can be implemented via insurance and unemployment support funds. Sources to set up these funds come from the state budget, firms and workers.

* Education and health policies for the poor

In our current market economy we have to pay for schooling and health care, only poor households can enjoy exemption and reduction. New policies should increase the investments in education, health care from the public while the state budget is limited. However, their other side affects greatly the poor. The education legislation allows students from first to fifth grade to pay no school fees. In reality, their parents have to pay other costs for school construction, buying books, extra study...Many families cannot afford these costs, so the rate of drop-outs remains high (4-5%), most of them are poor pupils. The Government should determine clearly rates of exemption and reduction concerning each level of income. Similarly, the health care policies for the poor should depend on levels of poverty because the number of poor people is still great.

* Housing policies for the poor

The poor is characterized by their unsettled houses (small area, no water supply, no hygienic conditions...). The problem is not only to build housing for the poor but also to build a modern city and restrict environmental pollution. We have the programs on housing installment sales for the poor, but the buyers are in fact medium of the middle class. The property of the poor is only the value of their land-use right. The housing policies for the poor should be carefully studied on the basis of urban development and capital assistance for the poor.

In the subsidization period, the Government offered housing to its officials under the form of indirect income sharing. When changing into the market economy, this policy has caused significant difference in income and living standard. Those who live in outskirts, have low position in the society or are not government officers suffer large disadvantages. The Government should give certain support to them by its housing policies.

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