

# Income and Living Standard in the Years 2001-03

## Situation and Problems

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### I. SITUATION

In the first three years of the 5-year plan 2001-05, Vietnam gained stable growth rates: 6.89% in 2001; 7.04% in 2002 and some 7.2% in 2003; or 7.06% for the past three years. Market prices fluctuated slightly. The price index was 100.8% in 2001; 104% in 2002 and 103% in 2003. Non-public sectors made good progress thanks to introduction of the Companies Law, Foreign Investment Law and other economic policies.

The economic development allowed improvements in personal income and living standard. According to a survey in conducted in 2002 by the General Department of Statistics, the personal income rose to VND357,000 a month, increasing by 21% compared with 1999. The average income in cities was VND626,000 a month, increasing by 21.1% while that in rural areas was VND275,000, increasing by 22.2%.

Regarding the personal income by class, the rich one that account for some 20% of the population earned 877,000 a month, increasing by 18.2% while the 20% poor made only 108,000, increasing by 11.7%. In this period, the personal income rose faster in rural areas than in cities. Income in especially depressed areas was improved remarkably due to effects caused by the Programs 135, 773, and many other social projects.

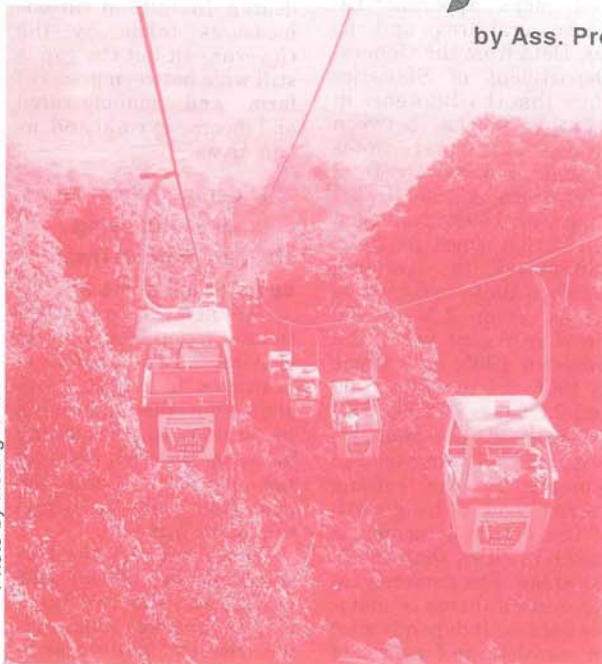


Photo by Hoàng Tuấn

Along with the personal income, the spending also increased. The personal spending in 2001-02 was VND268,000 a month, equaling 75% of the personal income and increasing by 21.4% compared with 1999. This figure in cities was VND460,000; increasing by 26.3%, and 210,000 in rural areas, increasing by 18%. The spending by 20% rich families rose by 18% compared with 1999 and 20% poor ones by 11%. It's worth noting that the spending on cultural life increased against the spending on material needs. Expenses on food fell from 63% in 1999 to 57% in 2002 although the volume consumed increased. Families of the middle and upper classes spent less on food and

more on other needs: the spending on household appliances rose from 3.8% to 8% in 1999-2002; on health care from 4.6% to 5.7%; education from 4.6% to 6.1% and travel from 6.7% to 10%.

Expenditure on non-food needs by the 20% rich families rose by 7.6 times (housing 10.6 times; household appliances 7.8 times; travel and telecommunications 16 times; recreation 104 times, etc.).

As for the housing, the per capita housing area rose from 9.7 sq.m. in 1997-98 to 12.5 sq.m. in 2001-02. Proportion of brick houses and concrete buildings rose from 74% to 75.5%. Proportion of families with TV set rose from 58% to 67%, with motorbike: from 24% to 32.5% and with clean drinking

water: from 15% to 17.6% in the same period.

Improvements in the personal income and living standard in the past three years have helped change the face of society. The most remarkable achievement was the fall in the proportion of poor families. The proportion of poor families in terms of food (according to standards set by the General Department of Statistics) fell from 13.33% in 1999 to 9.96% in 2002. In rural areas, this proportion fell quicker (from 15.96% to 11.99%) than in cities (from 4.61% to 3.61%). This fall varies over provinces: from 7.55% to 6.8% in the Hồng Delta; from 19.29% to 18.51% in north Central Vietnam; from 14.02% to 9.95% in coastal Central Vietnam; from 21.27% to 17.59% in Central Highlands; from 5.17% to 2.22% in eastern South Vietnam; from 10.22% to 5.57% in the Mekong Delta; from 17.07% to 14.14% in the northeast.

Calculating according to standards set by the Ministry of Labor-War Invalids and Social Affairs, the proportion of poor families in 2002 was 14.3% and some 250,000 families escaped poverty every year in 1998-2003. If standards set by the WB are taken into consideration, the proportion of poor families in 2002 fell to 29.4% from 37% in 1998 (7% in city and 36% in rural areas. In 2003, this proportion was estimated at 12% or 12.5%, equaling to the target set

by the National Assembly. A report of the General Department of Statistics in October 2003 said that there were 49,700 families, or 252,300 persons ran out of food before harvest time, accounting for 0.42% of rural families. This proportion fell by 45% compared with the corresponding period of 2002.

In November 2003 floods caused great damage to the Central Vietnam, the number of families suffered shortage of food increased sharply but their lives returned to the normal state with help from the people from other provinces and the government as well. Vietnam expected to meet its social targets set for 2003. This expectation is based on the growth rate achieved in 11 months of the year and efforts from the Government.

These social achievements in recent years were appreciated by the international institutions. WFP 2002 report affirmed Vietnam had ensured its food safety and the WFP could finish its mission in Vietnam. The UNDP 2002 report ranked Vietnam among countries that led the way in poverty alleviation and economic growth. The Vietnamese HDI, according to the UNDP, rose from 0.605 in 1990 to 0.649 in 1995 and 0.688 in 2003 helping Vietnam rise from the rank 122 among 174 countries to 109 among 175 in 2003.

Many factors contributed to these achievements but the most basic ones are the positive effect by appropriate policies adopted by the VCP and the Government and concerted efforts by companies and over 17 million families from all over the country. With their best efforts, Vietnam could make the best use of aid and cooperation offered by foreign governments and international institutions.

## II. PROBLEMS

Besides these achievements, there are many problem arising from the economic development process and requiring suitable solutions.

### 1. Widening gap in terms of income and living standard between classes and provinces

The gap becomes more and more apparent between rural areas and cities. Data from the General Department of Statistics show that the difference in monthly income between cities and rural areas changed remarkably: from 2.55 times in 1994 to 3.7 times in 1999; and then fell to 2.3 times in 2002. Differences in spending between those two regions varied from 2.5 to 3.0 times in recent years: 2.5 times in 1995; 2.57 times in 1996; 3.1 times in 1999 and 2.2 times in 2002. Differences in personal income and spending tend to increase in the coming years because the growth of the personal income is faster in cities than in rural areas. The personal income in rural area is unstable because it depends a lot on weather and prices of farm products. In recent

years, the weather has changed unfavorably. Natural disasters become more frequent causing bad effects on the agricultural production. Prices of farm products tend to fall while agricultural materials and manufactured goods, including one supplied by the State (water and power supply and irrigation fee for example) become dearer. In spite of various measures taken by the Government but the gap is still wide between prices of farm and manufactured and income in rural and urban areas.

### 2. Widening gap in terms of income and living standard among residents of the same areas

Results of investigations carried out by the General Department of Statistics in recent years show that the differences in income and spending between the rich (20% of the population) and the poor (the other 20%) had tended to increase.

If we compare the personal income of the 10% richest and the 10% poorest, the average difference will rise to 13.86 times in 2001-02, 14.22 times in ur-

ban and 9.4 times in rural areas. This difference leads to inequality between the rich and the poor reflected in the GINI index. This index equals zero when there is no inequality. This index in Vietnam rose from 0.39 in 1999 to 0.42 in 2002. Thus, the economic growth not only brings about increases in the personal income, but also a wider gap between the rich and the poor. This is one of the most worrying problems for Vietnam now.

Spending on housing and non-food needs by groups of residents also differs. The non-food expenditure by rich families was 7.6 times higher than that by the poor families in 2002 (50.5% of total spending compared with 29.8%). Food expenditure by the rich is not only much higher but also increasing faster than that of the poor. The total spending of the rich, in comparison with that of the poor was 4.2 times higher in 1999 and 4.5 times higher in 2002. The total spending by the rich rose by 18% in the years 1999-2002 as compared with an increase of 11% by the poor.

Table 1: The difference in personal income between the rich and the poor in 1994-2002 (times)

Area	1994	1995	1996	1999	2002
Vietnam	6.5	7.0	7.3	8.9	8.14
Cities	7.0	7.7	8.0	9.8	8.1
Rural areas	5.4	5.8	6.1	6.3	5.96
Region					
Hồng Delta	5.6	6.1	6.6	7.0	6.73
Northeast	5.2	5.71	6.1	6.8	6.01
Northwest	5.2	5.71	6.1	6.8	5.96
Northern Central	5.2	5.7	5.9	6.95	5.82
Coastal Central	4.9	5.5	5.7	6.31	5.83
Central Highlands	10.1	12.7	12.8	12.9	6.75
Eastern South	7.4	7.6	7.9	10.32	8.73
Mekong Delta	6.1	6.4	6.4	7.86	7.14

Source: General Department of Statistics

### 3. Unstable increases in the personal income

Having regular jobs is the basis for increases in the personal income but this seems still out of reach of laborers. The unemployment rate in urban areas and shortage of jobs in rural ones are still high in spite of recent decreases. According to labor investigations carried out by the Ministry of Labor - War Invalids and Social Affairs recently, the unemployment in cities was over 6% and some 25% in rural areas, that is, some 8 million persons of the working age are suffering from unemployment along with some 600,000 persons are added to the working population every year.

The unemployment, of one kind or another, has become a serious problem in both cities and rural areas and an obstacle to the effort to improve the personal income and living standard. Measures taken in the coming years to deal with this problem must be associated with job creation programs and better education and training for young laborers.

### 4. Fluctuations in prices of farm and manufactured products

The lasting and widespread excess of supply over demand has caused great difficulties for the agricultural production. In the years 1994-2001, the coffee price fell by 50%, rubber by 40% while prices of black pepper, sugarcane, vegetable and many other farm products experienced wide fluctuations, which affected badly the life of peasants, especially ones in the Central Highlands. The personal income of peasants on the Central Highlands rose and fell remarkably:

from VND241,140 a month in 1995 to 265,600 in 1996; 344,700 in 1999; 269,000 in 2001 and 239,670 in 2002. The proportion of poor families on these highlands according to the UN standards was high: 51.8% were considered as poor in 2002 and 17.6% suffered shortage of food.

The output of rice keeps increasing while the market demand doesn't rise and foreign consumers require rice of better quality, which leads to falls in the rice price and excess of supply over demand. In the years 1997-2000, Vietnam produced some 1.3 million tonnes of rice a year; the rice price in the Mekong Delta fell sharply with the result that personal income of Mekong peasants reduced. The excess of supply over demand forced the

Government to give hundreds of billions of đồng worth of subsidies to state-owned companies that purchased rice from peasants. A lot of peasants have decided to grow other crops in stead of rice, such as fruits in Tiền Giang, Vĩnh Long, Cần Thơ, and shrimp in Cà Mau, etc. causing the rice growing area to reduce.

On the world market, the rice consumption rose slowly, the consumers became more demanding and competition between rice exporting countries keener and keener. This situation affected badly the rice production and export by Vietnam. The price of exported rice fell continuously in recent years; from US\$275.5 per tonne in 1998 to 227 in 1999; 192 in 2000; 185 in 2001 and 199 in 2002. In some years, the more rice Vietnam exported, the bigger losses it suffered. The same thing also happened to other agro-industrial products, such as coffee, pepper, rubber, sugar, paper, salt, cashew nut, etc. The recession not only affected the personal income, but also reduced the national budget income and capital accumulation.

### 5. Threats from natural disasters

In the years 2000-03, lasting floods in the Me-

kong Delta caused great loss of properties and lives. In 2000, the floods in the delta cost VND3,730 billion when thousands of tonnes of rice were damaged, many infrastructure works destroyed.

Drought happened almost every year. It sometimes was very serious, as in 1998, 2001, 2002 and 2003 making the Central Vietnam poorer. During and after the floods, the shortage of food affected some 1.1 million persons in 2000 and 1.26 million persons in 2001. If damage caused by natural disasters on cities and rural areas is taken into account, the number of persons in need of food is even bigger: 7,032 persons in 2002. In 2003, the drought happened in the Central Highlands and Coastal Central Vietnam in the spring, floods in the Hồng Delta in the summer and floods in the Central Vietnam in the winter. In Ninh Thuận, damage caused by floods in November 2003 is bigger than the provincial budget income for the year. These facts show that the natural disasters are great obstacles to the economic growth and improvements in the personal income and living standard. This means that stronger measures should be taken in the coming years to deal with these problems■

