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The Role of Vietnamese Economic Reform in the Expansion of Middle Class in Vietnam

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2015 Otaniemi

Laurea University of Applied Sciences
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Degree Programme in Business Management
Bachelor's Thesis
Month, 201X

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Abstract

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Year 2015 Pages xx

Vietnam's economy has been growing rapidly in recent years. It is assumed that Vietnam may be the fastest growing of Southeast Asia's emerging economies by 2025. Vietnamese people's income has improved significantly. As a result, there are a lot of new industry areas and urban, modern cities have been built in Vietnam. Nevertheless, the amount of middle class, which is the most important class in an economy, in Vietnam is also increasing.

The purpose of this research is to investigate the role of economic reforms in Vietnam in the expansion of Vietnam's middle class. In addition, the readers will learn more about Vietnam's economy before and after economic reforms. They will also know how changes the reforms has made to Vietnamese people.

The thesis is a literature review, it used economic data from the World Bank, Vietnamese government sites and other sources were analyzed. Various measures of economic development were tested to achieve the results of this study.

The evaluation of data collected indicates that despite the expanded efforts and planning under the Doi Moi reform in 1986, which have resulted in impressive growth of the country, there has not been a significant expansion of the middle class. The middle class is just improving in big cities such as Hanoi and Ho Chi Minh City. There is a huge gap of income between people in urban areas and the ones who live in countryside.

Based on the results, the recommendation for government are given. It also has some initial thoughts on the problems of defining and delimiting the middle orders of society as well as the reasons behind those problems which has been preventing Vietnam from becoming an advanced country, a country worth living such as Singapore and Malaysia.

Keywords: macro-economic, reform, middle class, development, employment

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1 Introduction

Since the mid-1970s, following reunification, the Vietnamese Communist Party (VCP) has remained firmly in control. From the second half of the 1980s the Party began a program of economic renovation which called Doi Moi, to create a market economy within the socialist state and allowing for decollectivization, private ownership, and liberalized foreign trade and investment (Beresford2006; Drummond & Thomas 2003). Although Doi Moi was introduced in 1986, it was not until the early 1990s when a combination of internal and external factors (for example, the promulgation of a new Law on Foreign Investment in 1987, the termination of aid and trade flows from the Eastern European bloc in 1989, and the conclusion of the Peace Accord with Cambodia in 1991), resulted in the acceleration of economic and structural reforms. Since Doi Moi, Vietnam's economy has been a "market oriented socialist economy under state guidance" that has become open to private sectors and foreign investors. Indeed, the economic reform has improved the state's economy, decreasing inflation and poverty and increasing the GDP growth rates tremendously over the past 26 years. However, there are still remaining problems and unachieved goals, such as unclear laws, high societal inequality and state's relatively high economic dominance. Thus, there has been much research that has analyzed the improvements and problems of Doi Moi.

1.1 The Objective

This study poses a new question towards Doi Moi: what are its effects on the expansion of Vietnam's middle class? The investigation is relevant because of the importance of the relationship between the growth of an economy and the size of its middle class. Based upon several studies, which can date back to the time of Aristotle, it can be asserted that a strong middle class will lead to robust growth of the economy, as well as the progress lending towards democratization. Theoretically, a shift from an economy that was closed prior to 1986 to a current world's leading exporter in a number of products (rice, footwear, coffee, etc.) should lead to an enormous growth of the middle class. Yet, it is widely believed that Vietnam's economy is not reaching its full potential and is having developmental issues. Therefore, my hypothesis is that Vietnam's economic reform in 1986 has not had significant impacts on the expansion of Vietnam's middle class.

1.2 Limitations of Study

The data mining process of this study is largely dependent on sources from the Vietnamese government. Due to political reasons, only limited data has been released. Therefore, the

data did not provide enough statistical evidence to conduct a regression model. In addition, the government provided data pertaining to Vietnam that is only accurate to a certain level.

The study is delimited to the data of Vietnam's economy from 1986 to 2012 only.

1.3 Data

Data of Vietnam's economic indicators (GDP, GINI coefficients, income brackets, foreign investment, poverty rates, etc.) were acquired from three main online sources: the World Bank online database, the Vietnam General Statistic Office database (GSO) and the CIA World Factbook. The data were released by the Vietnamese government with a limited number of years included. Data from the GINI coefficients of China and India were also taken into consideration. These data were also founded in the World Bank Database.

1.4 Method of Research

The economic development indicators (GDP, foreign investment, export, etc.) were used to demonstrate the significant improvements of Vietnam's economy since 1986. The GINI coefficients and income brackets were used to determine the expansion of Vietnam's middle class over years. In addition, considering the expansions of China's and India's middle classes, the GINI coefficients of the two countries were also utilized for comparison purposes.

2 Literature Review

2.1 Vietnamese Economic Reform in 1986 – "Doi Moi"

2.1.1 Vietnam's situation before Doi Moi

From 1954 to 1975, after Vietnam gained independence from the France, the country was divided into two regimes: North Vietnam and South Vietnam. North Vietnam was supported by the Soviet Union and followed communism while South Vietnam was supported by the United States and adopted capitalism. During this period of time, North and South Vietnam had different economic situations. In the North, farmers were required to "voluntarily" join cooperatives and were assigned an amount of products to be produced. This led to corruption, abuse of power from the managers' side and lack of incentive from the farmers' side since the salaries would not be changed no matter how many hours they worked. As a result, rice production declined regardless of the government's efforts to improve farming techniques and irrigation. (Le, D 2004 and Table 1)

Table 1. Rice production (thousand tons)

Year	Rice Output
1955	3303
1956	4127
1957	3859
1958	4454
1959	5056
1960	4177
1961	4393
1962	4388
1963	4112
1964	4424

Sources: Tran Van Tho et al. Vietnam's Economy 1955-1964.

In 1957-1958 the North Vietnamese government in a campaign against private ownership took over most firms in manufactures and services, excluding micro businesses such as rickshaw drivers, small eateries serving traditional *pho* (noodle soup). Most of the takeovers by the state were expropriations whereby the state paid a lump sum to the previous owners. There new firms often started as state-private joint ventures but in 1964 most of these were transformed into state-owned enterprises (SOEs), while some remained as state-private joint companies. All agricultural farms in agriculture were transformed into cooperatives. Most of small handicraft and services were also reorganized as cooperatives (rickshaw drivers, small textile producers, etc.) operating within the framework of a centrally planning economy.

As a basically agricultural economy, the collectivization campaigns had a negative impact on socio-economic development. The share of state ownership increased from 17.9% in 1957 to 44.6% in 1965. The share of the cooperatives increased 0.2% to 45.4% in 1965, while the share of the private sector declined from 71.9% in 1957 to 10% in 1965 (Table 2).

However, the socialization campaign in Vietnam was not conducted any further. Small private agricultural activities were allowed on 5% of the land for members of the cooperatives. This was one of the income sources for the members of the cooperatives. Also, the farmers could sell products from this 5% of land to the market and could earn 40% of their income in cash. The efficiency of this 5% land was much higher compared to the 95% collectively cultivated land of the cooperatives, and such fact worried government economists and policy makers. A system of state procurement of crops and meat at fixed prices caused de-facto losses for the farmers. The incentives system for the farmers was distorted. In the cities, small traders were morally condemned, administratively pursued, but they did not totally disappear since they still satisfied people's demands in some extend, which were neglected by the centrally

planning and the rationing system. The supply system urban regions to fixed prices (lower than market price) on food and essential consumer goods caused artificially demand in a shortage economy, as people tried to buy as much as possible in the fear that the goods would not be available in the future.

Table 2. North Vietnam's economic structure before Doi Moi

	Socialist sector			Private, individual sector
	Total	State owned and state-capitalist	Collectivized and cooperative	
1957	18.1	17.9	0.2	71.9
1960	66.4	37.8	28.6	33.6
1965	90.0	44.6	45.4	10.0
1970	91.4	40.3	51.1	8.6
1975	91.6	51.7	39.9	8.4

Source: Tran Van Tho et al. Vietnam's Economy 1955-1975

Table 3. Ownership restructure in Reunited Vietnam, 1976-1985 (%)

Year	State-owned sector	Non-state sector
1976	27.7	72.3
1980	19.8	80.2
1985	28.0	72.0
1990	31.8	68.2
1995	40.2	59.8

Source: Tran Van Tho et al. Vietnam's Economy 1955-2000

Simultaneously, South Vietnam was supported by the United States and had an open-market economy. It was integrated into the international market and had a strong dominance in light industries and services. However, after unification the country on 30 April 1975, when the US armed forces were finally defeated, two major campaign of socialist reconstruction were launched in 1976 and 1978, respectively, in the South Vietnam. All private enterprises with a total of $800 million, were socialized (either though expropriation or confiscation). Thereby the share of state-owned sector steadily improved as shown in table 3. By the end of 1985, the socialist reconstruction of all Vietnam was declared to have been successfully completed.

Private capitalist enterprises were considered illegal and anti-socialist. The central planning system did not allow the operation of any private enterprise outside of the planning system. No material was allocated, no credits were provided to private companies, if they existed.

Manual work was praised in contrast to intellectual activities and professional services that were seen as non-productive. In such systemic economic, social, political and moral context, the capitalist elements could not exist. The society was asked to work hard, restrain from consumption and endure economic hardship and shortage with the vision of a brighter and more prosperous future. (Claes Brundenius, Ricardo Torres Pérez. 2013. No More Free Lunch: Reflections on the Cuban Economic Reform Process and Challenges for Transformation)

After the unification, Vietnam's economy suffered serious stagnancy because of the non-productive central planning system which caused very low labor productivities, unemployment and technological short falls. Along with the severe war destruction, living conditions were very difficult for the majority of the population. The people's demands were not provided because of a national shortage of food, necessities and consumer goods. The state implemented rations for each type of occupation (Table 4). Still, there was a decline of external assistance from the Soviet Union at the same time.

Table 4. Food rations for monthly consumption in Vietnam (1963-1989)

Categories	Class of rations	Meat (kg)	Sugar (kg)
Special	A1	more than 7	more than 3.5
Minister and equivalent	A	6.0	3.0
Vice - minister and equivalent	B	5.0	2.0
General Director	C1	3.0	1.5
Dep. Gen. Director	C	2.0	1.0
Director	D	1.0	0.5
State employee	E	0.3	0.25
Special worker	DB	2.5	0.75
Hard worker	I	1.5	0.75
Worker	II	1.2	0.5
Light worker	III	0.3	0.35
Children under 6 years	TR	0.3	0.5
Children 7-16	TN	0.3	0.35

Source: Dang Phong et al. ibid.

In 1980, Vietnam only exported 10% of its domestic production. For 11 years, from 1977 to 1988, there was only an annually 3.5% rise in exports. In the early 1980s, the economic situation urged the government to moderate the economic system, allowing state-owned enterprises (SOEs) to be minimally market-oriented. Unfortunately, these changes did not improve the economy, which worsened when the inflation rate rose to almost 500%.

Table 5. Average salary of a state employee

Year	Salary in US$ according to the exchange rate
1981	17272.60
1982	8.329.20
1983	7283.60
1984	5123.00
1985	1388.10
1986	4227.50
1987	331.80
1988	304.90
1989	65.960
1990	32.60
1991	25.19

Source: *Tran Van Tho et al. Vietnam's Economy 1955-2000*

2.1.2 Economic Reform Policies

The critical economic situation made the Communist Party of Vietnam (CPV) introduce a more comprehensive economic renovation in its Sixth National Congress in December 1986. This converted the economy to a "market-oriented socialist economy under state guidance." The Doi Moi reform recognized the importance of multi-ownership structured economy, aiming at improving people's living standards through more relaxing economic policies and reduction of government intervention in the market. The rationing system for commodities was abolished in 1987 and the market determined nearly all commodity prices in 1990. Doi Moi encouraged foreign investment and expansion of the private sector. Moreover, new laws (typically Enterprise's Laws) were passed, making it easier for the private sector to develop and to attract more investments from other countries. (Klump & Bonschab. 2004)

2.1.3 After Vietnam's Economic Reform 1986 – Doi Moi

Since the start of Doi Moi, Vietnam's economy has experienced a period of astounding growth and development. The annual Gross Domestic Product (GDP) growth rate of 7% in that period has made Vietnam became one of the fastest growing economies in the world. Even though the growth was slowed down somewhat during the Asian economic crisis in the late 1990s and

the SARS epidemic in the early 2000s, Vietnam's economy still has a high growth rate (approximately 5-6%). Better still, the inflation rate declined to 34.7% after Doi Moi in 1989. In 1992, exports accounted for almost 50% of the national GDP. After 8 years, in 2000, the export dollar value doubled the percentages of 1992. There has also been a rapid growth of joint ventures, foreign investment, job creations and foreign invested firms. In 1988, the poverty rate for the entire population was 75%. However, this number has fallen significantly to 56% in 1993 and 30% in 2002. (Belanger, 2000). Based on 4 criteria: Life expectancy at birth, mean years of schooling, expected years of schooling and gross national income per capita, the United Nations measured and evaluated the Human Development Index (HDI) in Vietnam from 1986 to 2000 (Table 6). HDI is used to measure and rank countries' level of social and economic development.

In July 13, 2000, Vietnam and the United States signed the Bilateral Trade Agreement (BTA), which applied a reduction of trade tariffs on most imports from Vietnam. Based on data from the World Bank, the value of Vietnam's exports rose to 1.3 billion dollars in 2001, which was 60% higher than that of 2000. The BTA has boosted bilateral trade between Vietnam and the U.S. as well as trade with other western countries.

From the start of the 21st century, Vietnam's economy has taken a big step forward with significant changes in various fields, especially in socio-economic development. In 2000, the amount of Official Development Assistant (ODA) in general and from Japan in particular increased sharply. Also, banks and financial groups were allowed to deal with interest rates themselves from 2002. In 2006, Vietnam successfully became the 150th member of the WTO, opening wide and various opportunities for both domestic and foreign companies. In 2008, the Foreign Direct Investment (FDI) for Vietnam reached the level of $60 billion, which is the highest in its history. The GDP growth rate has been continuously high, between 5-7%.
After 26 years since the Doi Moi, Vietnam's economy has made a great step forward. The GDP in 2010 was $272.6 billion and the unemployment rate was 4.4%, which was relatively low compared to that of other countries because of the economic crisis. (World Bank database)

Table 6. Indicators of Growth and Development in Vietnam 1980 – 2001

INDICATOR	1980-1986	1987-1991	1992-1997	1998-2001
Average annual real GDP growth rates (%)	4.88	5.05	8.77	6.04
Population growth (%)	2.2	1.9	1.9	1.8
GDP per capita growth (%)	2.66	3.15	6.87	5
Human Development Index (value)	N/A	0.435 (1990)	0.486 (1995)	0.528 (2000)

Source: World Bank database, UNDP database (2003)

2.1.4 Challenges for Vietnam's economy after Doi Moi

Despite the tremendous growth and development of Vietnam's economy since 1986, it is categorized as a low-income economy having a number of old and emerged problems. The market-economic institutions are not yet fully established, especially when most of the biggest state-owned corporations have not been equitized and major industries are still owned by the state. There is large capital flow through ODA and FDI but the government has not used it efficiently. Having a large SOEs' share in the economy but no clear and lawful regulations for SOEs makes the economy less incentive and productive. This can also be seen by the fact that the stock-exchange market is small and only accounts for 0.26% of the GDP.

The national poverty rate has been on the decline, but not uniformly throughout the country. The urban areas near the Red River Delta and Mekong Delta have had a sharp decrease in poverty while other mountainous areas have been experiencing a much slower rate. In fact, many poor people live in the mountainous and rural areas. Also, education levels and working skills are different, which has created a gap between the rich and the poor. In addition, Vietnam is going through industrialization and a lot of farmland is being used to build factories and provide for city expansion with foreign investment. Many farmers and workers in these areas are skillful only in their agricultural specialty and cannot find different jobs, thus increasing the unemployment rate and inequality in the society.

Apart from the economy, the political reform in Vietnam has been a slow process. Press and media are still under the control and regulation of state. News is subjected to a state censor before being released. There is a large censorship from the Department of Culture and Ideology in TV shows, concerts, music, newspapers and several other forms of media.

2.2 The importance of Middle Class

It has been accepted that there are mutual beneficial relationships between a country's economic growth, society stability and political environment. A strong middle class, as the largest consumer group, is a stable consumer base that will boost the productive investment (money cycle) of an economy. A strong middle class can promote educational value, trust level among people and other societal conditions that ensure social stability. Moreover, being between two extreme classes, the rich and the poor, the middle class has the best-balanced interests that also benefit the society. A study in 2005 of economic growth in the 50 states by Dr. Mark Partridge of Ohio State University concluded "a more vibrant middle class…increased long-run economic growth". (Madland, 2011) Within the following are four fundamental mechanisms that make the middle class the key of economic, society and political development.

2.2.1 Middle Class creates Stable Demand

In his masterpiece, "The General Theory of Employment, Interest, and Money" in 1936, John Maynard Keynes demonstrated the fundamental connections between the middle class and economic growth. Keynes stated that there has to be a sufficient level of consumption to make profit and new investments beneficial. Hence, it is crucial for policy-makers to seek for demand stimulation during economic recessions. He also noted an important point that extremely unequal distributions of income lower demand, which leads to slower growth of the economy. The main reason is that the wealthy actually saves more money and spends less than the middle class, which means that there is not going to be enough demand to back up an economy in crisis.

This can also be concluded by Keynes' hypothesis about the relationship between Consumption (C) and Income (Y), which is the Average Propensity to Consume (APC= $\frac{C}{Y}$). Keynes said that as the incomes go up, people consume more and save more. Thus, for an economy to have sustainable robust growth, it is necessary for the middle class to have high income enough to consume goods.

Keynes, John M. (1936). *The General Theory of Employment, Interest and Money*. New York: Harcourt Brace Jovanovich. p. 96. "The fundamental psychological law ... is that men [and women] are disposed, as a rule and on average, to increase their consumption as their income increases, but not as much as the increase in their income."

2.2.2 Middle Class and Trust

It is reasonable to assume that a strong middle class can increase the level of trust in a society and among members of the same class. People would be more willing to work with others people who are from the same group. They would be more confident and optimistic to work and do business with others since the middle class size is big and their living standards are controllable. Apparently, the rich and the poor do not share a lot of the same moral values. Hence, in an unequal society, there will be a low level of trust, which can result in higher costs of transactions and making it more difficult to develop policies. (Madland, 2011)

2.2.3 Middle Class and Good Gorvernance

As far back as 350 B.C., Aristotle emphasized the importance of the middle class to the stability of a country. The rich, who have wealth and fortunes, according to Aristotle, are generally not willing to submit to authority. In contrast, the poor are too degraded and weak that they are commonly ruled. Therefore, Aristotle believed that a middle class that acts as the moderation and mean of the two extreme classes is much needed. The larger the middle class size is, the harder it would be divided into either group. This is the key point for promoting a country's democracy. Aristotle's idea is still applicable for the modern world because the middle class will advocate policies that are beneficial to the whole society but not some specific people. Because of being between the rich and the poor, the middle class wants to increase their wealth, but also stabilize the economy to benefit the poor and themselves. Hence, a strong middle class will ensure the government is working well and promoting favorable policies for the economy to grow. (Madland, 2011)

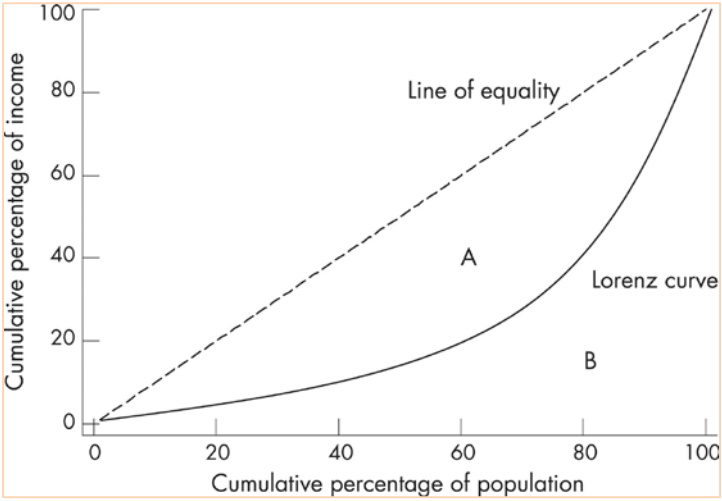
2.2.4 Middle Classes promote Capitalist's Values

The middle class has sufficient financial resources and stability, but not enough life of leisure. Thus, there is a positive attitude of the middle class to gain more work and to work, causing the economy to become productive. Another noticeable idea is that, nowadays, the capitalist's value has been passed down through generations that people are having higher expectations in lives. Generally, children are taught to work and study hard, get a college degree and to be successful. Hence, the middle class also promote the society in the long term (Madland, 2011.)

3 Theoretical concept and actual finding

3.1 Income distribution

Figure 1. GINI Coefficient



To verify the income distribution, I used GINI index. The index is named after its developer, Corrado Gini, an Italian statistician of the early 20th century. It is typically expressed as a percentage, so a 20 coefficient would be shown as 20%. It measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus a GINI index of 0 represents perfect equality, while an index of 100 implies perfect inequality. Do not mistake the measurement of income distribution with the measurement of wealth. A wealthy country and a poor country can have the same Gini coefficient, even if the wealthy country has a relatively equal distribution of affluent residents and the poor country has a relatively equal distribution of cash-strapped residents.

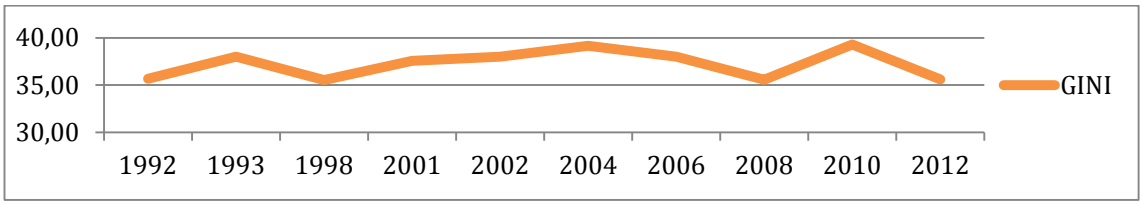
Hence, the first economic indicator to be investigated is the GINI coefficient, measuring the inequality of values for a frequency distribution. In this case, the GINI coefficient is of the income distribution of Vietnam from 1986 to 2012. GINI index will be 0 in the most equal society (G=0).

Table 7. GINI index of Vietnam's economy since 1992

Year	GINI index (G)
1992	35.68
1993	38
1998	35.52
2001	37.55
2002	38
2004	39.16
2006	38
2008	35.57
2010	39.3
2012	35.6

Source: World Bank database

Chart 1. Vietnam GINI coefficient



Based on Chart 1, it can be assumed that the inequality level of Vietnam's income distribution has been fairly high but stable over 16 years. There was no sharp peak or trough, indicating that the gaps among different classes (income groups) remain almost the same. However, the GINI coefficient in this case is not enough to show if there has been any expansion of Vietnam's middle class.

Chart 2. India GINI Index since 1983

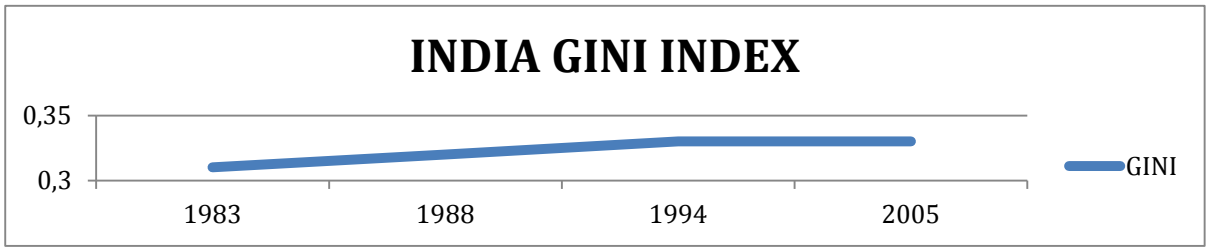
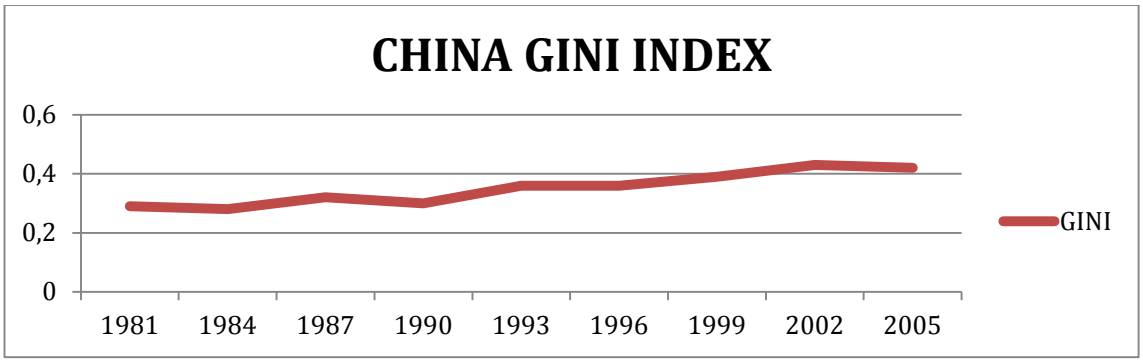


Chart 3: China GINI Index sine 1981



Source: World Bank database

By considering the cases of China and India, this study concluded that examining the GINI coefficient of income distribution alone couldn't do measuring the size of the middle class. Over years, much of the Chinese and Indian population has move into the middle classes. However, there is no major decrease in the GINI indexes of these two countries over a long period of time. China's GINI index has even increased a small amount. It is because the relatively proportional increases in incomes of different groups, which results in approximately the same inequality levels over years. Hence, there might be increases in income of the different groups, expanding the size of middle classes.

3.2 Poverty rate

3.2.1 Statistical concept and methodology

Poverty headcount ratio among the population is measured based on national (i.e. country-specific) poverty lines. A country may have a unique national poverty line or separate poverty lines for rural and urban areas, or for different geographic areas to reflect differences in the

cost of living or sometimes to reflect differences in diets and consumption baskets.(web.worldbank.org)

A common method used to measure poverty is based on incomes or consumption levels. A person is considered poor if his or her consumption or income level falls below some minimum level necessary to meet basic needs. This minimum level is usually called the "poverty line". What is necessary to satisfy basic needs varies across time and societies. Therefore, poverty lines vary in time and place, and each country uses lines which are appropriate to its level of development, societal norms and values.

Information on consumption and income is obtained through sample surveys, with which households are asked to answer detailed questions on their spending habits and sources of income. Such surveys are conducted more or less regularly in most countries. These sample survey data collection methods are increasingly being complemented by participatory methods, where people are asked what their basic needs are and what poverty means for them. Interestingly, new research shows a high degree of concordance between poverty lines based on objective and subjective assessments of needs.(web.worldbank.org)

National poverty lines are the benchmark for estimating poverty indicators that are consistent with the country's specific economic and social circumstances. National poverty lines reflect local perceptions of the level and composition of consumption or income needed to be non-poor. The perceived boundary between poor and non-poor typically rises with the average income of a country and thus does not provide a uniform measure for comparing poverty rates across countries. While poverty rates at national poverty lines should not be used for comparing poverty rates across countries, they are appropriate for guiding and monitoring the results of country-specific national poverty reduction strategies. Almost all national poverty lines are anchored to the cost of a food bundle - based on the prevailing national diet of the poor - that provides adequate nutrition for good health and normal activity, plus an allowance for nonfood spending. National poverty lines must be adjusted for inflation between survey years to remain constant in real terms and thus allow for meaningful comparisons of poverty over time. (web.worldback.org)

3.2.2 Finding

As mentioned in the literature review, the poverty rate of Vietnam has declined significantly since 1986. Theoretically, when the poverty rate drops down drastically, income levels of all classes should be increased. Hence, there should be a significant percentage of people moving from the lower class to the middle class. Table 8 shows a decline of 65% in the poverty

rate over 20 years, which indicates an improvement in income of the Vietnamese people. But the poverty increased about 3% from 2008 to 2012. It was likely caused of global financial crisis 2007-2010, which leaded to the shut down of large numbers of businesses and tons of unemployment.

Table 8. Vietnam's Poverty Rate from 1988-2012

Year	1988	1993	1998	2002	2004	2006	2008	2010	2012
Poverty rate (%)	75	56	37	29	20	16	15	20.7	17.2

Source: WorldBank Database

3.3 Income brackets

Income bracket is a category of taxpayers based on the amount of their income. To get the most accurate measurement of Vietnam's middle class expansion after Doi Moi in 1986, the income brackets were assessed, using available data from 1986 to 2012. Table 9 shows the monthly income of five income groups in Vietnam, in which each group accounts for 20% of the population. Group 1 is the poorest group and Group 5 is the richest group. It was assumed that the middle class would be Group 3 and 4.

On the surface, the poverty reduction policies from Vietnamese government look successful. Poverty levels in Vietnam have dropped from around 70 percent of the population to less than 20 percent in the past 15 years, according to the World Bank. The country's economy grew by 8 percent in 2006, and average per capita income has increased to $723 in 2006 from $485 in 2003. But table 9 found that the wealthiest individuals earned almost 10 times more than the poorest, who mostly live in rural, remote areas and depend on agricultural production. A disproportionate number of the poor also belong to ethnic minorities. Vietnam introduced fees for both health care and education in the late 1980s, adding that these policies have particularly penalized women in rural areas. Families that don't have the money to pay for school fees and supplies are more likely to take girls out of school than boys. Health care costs have rocketed beyond the reach of poorest families and women tend to sacrifice their own health needs to allow their children and husbands to receive services, she added. Vietnam's government remains intolerant of criticism; Human Rights Watch's 2007 World Report finds. In the past year it has persecuted dissidents, restricted public gatherings, controlled access to the Internet and prohibited all free press and independent labor unions. Vietnam wants to open up economically, but the ruling Communist Party also wants to keep political control.(Bojana Stoparic, Women's e-news, February 15, 2007)

Table 9. Monthly Incomes of Five Income Groups (USD[1])

	2002	2004	2006	2008	2010
Group 1	5	6.7	8.7	13	17.5
Group 2	8.5	11.46	15	22.7	31.8
Group 3	12	16.5	21.8	33.3	47
Group 4	17.6	24.4	32.3	50	70
Group 5	41.5	56.3	73	117	162

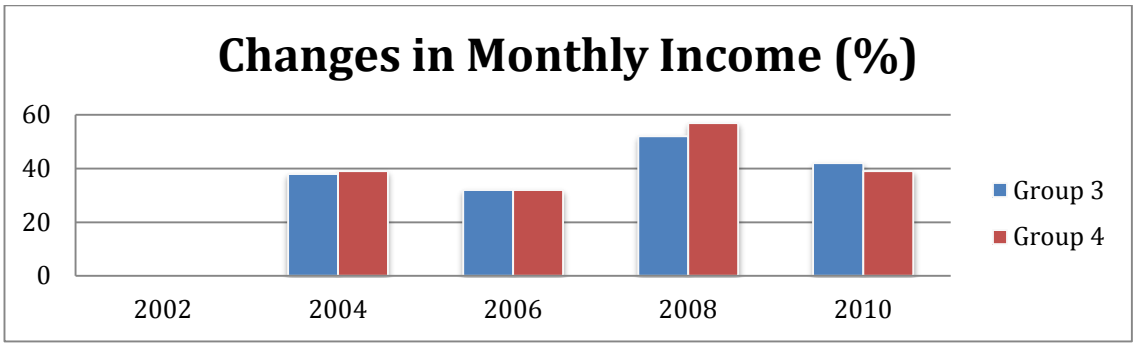
Source: Vietnam Government Statistic Office database (GSO)

Table 10. Percentage of Changes in Monthly Incomes of Five Income Groups (%)

	2002	2004	2006	2008	2010
Group 1	0	32	29	50	34
Group 2	0	35	32	49	39
Group 3	0	38	32	52	42
Group 4	0	39	32	57	39
Group 5	0	35	30	59	39

An important note for analyzing Table 10 is that in 2008, the inflation rate of Vietnam's economy was approximately 22.3%. This explains the increases in incomes of all five groups.

Chart 4. Percentage of Changes in Monthly Incomes



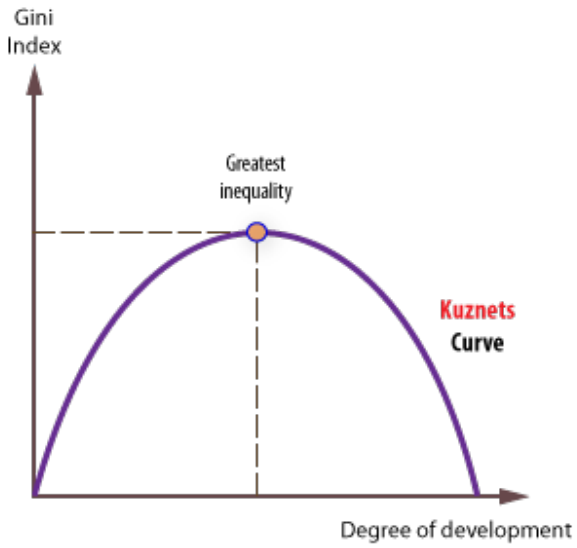
Apparently, Table 10 and Chart 4 illustrate very minor differences between the changes of the income brackets, especially group 3 and group 4, over every two years after 2002. Along with an almost horizontal line of Vietnam's GINI index from 1992 to 2008, it is safe to assume

[1] Current exchange rate: US$ 1 = 21 VND

that the middle class of Vietnam has not had any major changes since Vietnam's Economic Reform Doi Moi in 1986. Therefore, it is failed to reject the hypothesis.

Some similarities between the Kuznets Curve and this research were also found (Figure 2). Simon Kuznets discovered the inverted U-shaped relationship between income inequality and economic growth (Kuznets 1955). The first half of the inverted U-shaped graph corresponds to developing economies like Vietnam. As the income increases, the income inequality plateaus to a turning point of Income. The other half is of developed countries, of which as the income goes up, income inequality will decrease. The curve cannot be constructed in this study because there is not enough number of years have passed since Doi Moi that allows construction of the curve. However, it can be concluded that Vietnam is still in the first part of the curve for developing countries and the middle class still needs to expand.

Figure 2.



4 Vietnamese living standard in reality

This is an example of a person who is considered as midde-class in Vietnam nowadays (actually a low class based on international rate), which was reported from Da Lat (a city in the middle of Vietnam), Stanley Karnow wrote in Smithsonian magazine, ”Peasants labored in paddy fields, protected at intervals by gleaming white statues of Phat Ba Quan Am, a Buddhist goddess of compassion. I stopped at a flower farm, where the owner, in his mid-40s, identified himself as Le Mai Xuan. As we strolled around the meticulous, one-acre plot, he told me that he cultivates chrysanthemums that wholesale for 7 or 8 cents each. He moonlights as a policeman. His wife, Thuy, is a teacher; together they earn $14,000 annually—a staggering sum compared with the Vietnamese average of about $500. Despite their wealth, however, they and their three children share a minuscule house with outdoor plumbing. The family cooks on a primitive charcoal stove, but they have a radio, television set, videocassette recorder and refrigerator. Their teenage son Hung sat at a makeshift desk in a corner, learning English on a computer. Logging onto the Internet, he demonstrated a vocabulary lesson, repeating the words on the monitor: “Bob and Jane are staying with their Uncle George in Pittsburgh.” Beaming with pride, his father told me, “My dream is that he becomes an engineer, a doctor or a lawyer, and cares for me when I retire.” I wished the youngster good luck.” (Stanley Karnow, Smithsonian magazine, August 2005).

In my knowledge, more than 70 percent of the 83 million Vietnamese live in the countryside and work in agriculture, in some places still struggling to make one dollar a day. Even in Hanoi, where top classes are living, I have seen hardy women in conical straw hats are still seen walking all over the city balancing two heavy baskets of cheap fruit and vegetables from a pole hoisted on a shoulder.

Vietnam is one of the most expensive places in the world to buy a vehicle with import tariffs of up to 90 percent. "You are first-class citizens if you go to work in a car," Do Thanh Trung, manager of a small import-export firm, said proudly after spending $29,000 on a second-hand Mercedes C200.

5 Discussion and Conclusion

5.1 Discussion

One of the consequences of *Doi Moi* in Vietnam has been increasing social inequality and particularly the widening gap between rich and poor, and urban and rural communities (World

Bank 1995, 1999, 2000; Beresford & McFarlane 1995; Luong & Unger 1998; Taylor 2004b). As the state abolished the subsidy system (*bao cap*), which used to provide for everything from education and employment to healthcare, housing, holidays and other social benefits, unemployment and poverty have risen significantly. Meanwhile, there is ample evidence of dynamic groups and individuals who possess knowledge, skills, experience, and social connections, seizing opportunities offered by economic development to become affluent, causing a widening disparity between rich and poor (Kim 2004).

Therefore, there has emerged "the new urban rich" comprising people in positions of political power and administrative influence, those who control economic capital, and people with education, experience, and skills (Trinh Duy Luan 1993; Bresnan 1997: 77). These groupings can often overlap, as Koh, for example, observes in that most government officials have sources of income other than their official salary and many have subsequently accumulated economic capital (2001b: 283). It is the educated grouping which is most relevant to the study of middle classes. Increasingly urban professionals see themselves as successful in utilizing human capital instead of political power; and in so doing, bringing to Vietnam a 'new ethos of transnational modernity' (Taylor 2004b: 16). Jørgensen (2005: 318) has also noted that economic renovation has 'had a tremendous effect on social development and an urban middle class [has] emerged with a lifestyle closer to the global urban middle class than to their fellow citizens in the countryside' (see also Earl 2004; Taylor 2004a, 2004b: 31–32).

In this connection, the characterization of a communist party cadre in big cities such as Ho Chi Minh City and Hanoi, the middle class are referred to as 'those who are well-educated and have a big monthly income, ... they have property, know at least one foreign language and can use the Internet. They may have a house or villa in the suburbs or neighboring provinces. As they have a car, their house must have a garage' (quoted in Escobar 2003). In Vietnam, those people are considered as top classes. They are usually businessman or working for foreign enterprises. In state-owner organizations, only people on top positions among to this class. Normal employees in state companies they go to work by motorbikes or public transportations. In this paper I considered them as lower class. Besides, more people from countryside are trying to migrate in cities with the hope of changing their life. They have to face with more expensive expenditure and not guaranteed for a decent job, since there are so many competitive from other people. Minor of them have been successful and become middle class but the rest keep working with hope then it increases the amount of people in lower-class. The consequence would be the gap between the classes in Vietnam would more likely be bigger.

Immediately after *Doi Moi* was introduced and throughout the 1990s, there was a relatively large movement of personnel from the state to the non-state sector (Fforde 1996: 40–41,

2003: 41, 46; Boothroyd & Pham 2000: 23). It is estimated that more than 70% of those who left the state sector either created their own enterprises or were employed by business owners (Le & Rondinelli 1993: 9). However, growth in the private sector has been heavily concentrated in large cities, with Hanoi and Ho Chi Minh City providing home to 40% of all Vietnamese private companies (Tenev et al. 2003; Hansen et al. 2004; Steer & Taussig 2002). In addition, in spite of this increase, the state is still a major employer, providing a greater number of jobs than any other single sector (Nguyen 2002). Private sector businesses are also 'still very reliant on the state for licenses, contracts, access to capital and land, and very often, protection' (Gainsborough 2002: 700; Fforde 2003: 37). At the provincial level 'not only are state institutions at the heart of regulating economic activity but also they are active participants in economic activity through the running of state and private firms' (Gainsborough 2005a: 11). Furthermore, 'relations between the equitized firm and the state continued to be close, with the state maintaining considerable inspection and control rights' (Gainsborough 2005b: 33).

The Doi Moi economic reform has had significant impacts on Vietnam's economic growth. Before Doi Moi, Vietnam was a closed-economy with a 500% inflation rate and serious shortage of foods and necessities. Today, Vietnam is of the largest exporters of agricultural products with a relatively high annual GDP growth rate of 5-6%. In addition to abolishing the central planning system, the Vietnamese government has shown appreciation toward the private sector and especially foreign investment by easing the administrative procedures and passing more specific business related laws. Despite these favorable changes, an expected expansion of Vietnam's middle class has not yet materialized, which is a bad sign for an economy and the democracy in the country. In the study titled "Political Change in Vietnam", Gainsborough (2002) stated several interesting points that could explain the situation in Vietnam. One is that the level of democracy not only depends on the size of the middle class but also the relations of the private sector/middle class and of the state. For example, enterprises and especially foreign companies are still largely dependent on the state for administrative procedures or a background with Communist Party of Vietnam's membership can be much more competitive to employers, especially to the conservative ones.

5.2 Challenges for leaders

Obviously, the government have to cut out the poverty and expand the middle class. The first step is creating more jobs. The best pathway out of poverty is a well-paying job. They should invest in job-creation strategies such as rebuilding infrastructure, developing renewable energy source, renovating abandoned house and construction. Alongside with offering more jobs, the education in rural areas has to leveled up. Rapid economic transformation and growth have meanwhile contributed to rising inequality in income and opportunities. Some of

the poor, especially those living in rural areas or small cities, have limited access to high quality education and health services, or to good jobs.

The second step should be raising the working conditions, especially in state sector. Democracy is always existed in Vietnamese state companies. Some people they do not do much but still get same or higher paid than others who are hard-working. Everyone should be treated fair. Besides, in order to get promoted, skills and levels are not the most important thing. You will not be promoted if you do not have a good relationship with your boss and colleagues. This kind of relationship is built by gifts, money, not by your working performance. The minimum wages also need to be raised. The huge salary gap between boss and lower people should be narrowed.

The last but not least, private enterprises need to be allowed to involve and independent more in businesses, especially some sectors which are monopolized by government such as electricity, fuel, water, etc. It would just be better for consumers because they would have more options. Therefore the suppliers have to provide more quality products with reasonable price.

5.3 Conclusion

Even though the Doi Moi economic reform has impressively fueled the growth of Vietnam's economy, the non-expanding middle class situation of the past 26 years should be seriously considered by the Vietnamese government. As stated in the literature review, the middle class has essential roles in stabilizing the economy and promoting democracy. Having a high GDP annual growth rate or being a large exporter does not guarantee a stable and rising economy if the social inequality is high. As mentioned in Aristotle's "Politics", when the middle class is small, a country's population will fall into almost only two extreme classes: the rich and the poor, which could lead to social conflict. Even with the favorable economic conditions after Doi Moi, the fact that Vietnam's middle class size has not grown can be attributed to the State's development policies that highly favor the rich, especially when state officials and employees account for a large part of Vietnam's upper class. Apart from all the positive economic indicators of Vietnam's economy, its government should carefully look into the middle class as well as poverty to have a long-term stable and advanced economy.

5.4 Recommendation for future studies

A suggested future study is to conduct the same study but with more data to determine if there is any expansion of the middle class in a wider range of time. It is crucial to maintain

and extend the size of the middle class for an economy. Therefore, future studies should look into the reasons of this non-expanding situation of Vietnam's middle class. Also, suggestions to policy-makers would be very valuable for the development of Vietnam's economy.

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Figures

Figure 1.

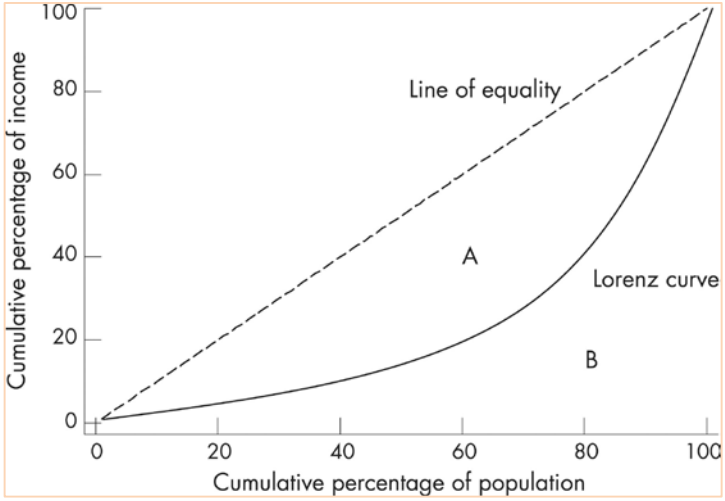
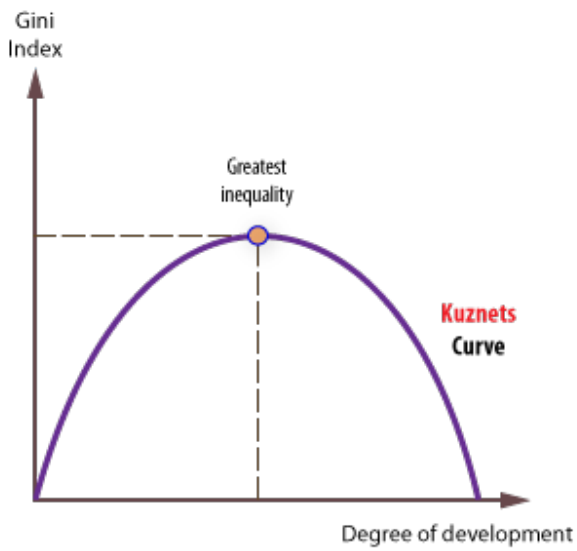


Figure 2.



Tables

Table 1. Rice production (thousand tons)

Year	Rice Output
1955	3303
1956	4127
1957	3859
1958	4454
1959	5056
1960	4177
1961	4393
1962	4388
1963	4112
1964	4424

Table 2. North Vietnam's economic structure before Doi Moi

	Socialist sector			Private, individ-ual sector
	Total	State owned and state-capitalist	Collectivized and cooperative	
1957	18.1	17.9	0.2	71.9
1960	66.4	37.8	28.6	33.6
1965	90.0	44.6	45.4	10.0
1970	91.4	40.3	51.1	8.6
1975	91.6	51.7	39.9	8.4

Table 3. Ownership restructure in Reunited Vietnam, 1976-1985 (%)

Year	State-owned sector	Non-state sector
1976	27.7	72.3
1980	19.8	80.2
1985	28.0	72.0
1990	31.8	68.2
1995	40.2	59.8

Table 4. Food rations for monthly consumption in Vietnam (1963-1989)

Categories	Class of rations	Meat (kg)	Sugar (kg)
Special	A1	more than 7	more than 3.5
Minister and equivalent	A	6.0	3.0
Vice - minister and equivalent	B	5.0	2.0
General Director	C1	3.0	1.5
Dep. Gen. Director	C	2.0	1.0
Director	D	1.0	0.5
State employee	E	0.3	0.25
Special worker	DB	2.5	0.75
Hard worker	I	1.5	0.75
Worker	II	1.2	0.5
Light worker	III	0.3	0.35
Children under 6 years	TR	0.3	0.5
Children 7-16	TN	0.3	0.35

Table 5. Average salary of a state employee

Year	Salary in US$ according to the exchange rate
1981	17272.60
1982	8.329.20
1983	7283.60
1984	5123.00
1985	1388.10
1986	4227.50
1987	331.80
1988	304.90
1989	65.960
1990	32.60
1991	25.19

Table 6. Indicators of Growth and Development in Vietnam 1980 – 2001

INDICATOR	1980-1986	1987-1991	1992-1997	1998-2001
Average annual real GDP growth rates (%)	4.88	5.05	8.77	6.04
Population growth (%)	2.2	1.9	1.9	1.8
GDP per capita growth (%)	2.66	3.15	6.87	5
HDI (value)	N/A	0.435 (1990)	0.486 (1995)	0.528 (2000)

Table 7. GINI index of Vietnam's economy since 1986

Year	GINI index (G)
1992	0.3568
1993	0.38
1998	0.3552
2001	0.3755
2002	0.38
2004	0.3916
2006	0.38
2008	0.3557

Table 8. Vietnam's Poverty Rate from 1988-2008

Year	1988	1993	1998	2002	2004	2006	2008
Poverty rate (%)	75	56	37	29	20	16	15

Table 9. Monthly Incomes of Five Income Groups (VND[2])

	2002	2004	2006	2008	2010
Group 1	107.7	141.8	184.3	275.0	369.4
Group 2	178.3	240.7	318.9	477.2	668.8
Group 3	251.0	347.0	458.9	699.9	1000.4
Group 4	370.5	514.2	678.6	1067.4	1490.1
Group 5	872.9	1182.3	1541.7	2458.2	3411.2

Table 10. Percentage of Changes in Monthly Incomes of Five Income Groups (%)

	2002	2004	2006	2008	2010
Group 1	0	32	29	50	34
Group 2	0	35	32	49	39
Group 3	0	38	32	52	42
Group 4	0	39	32	57	39
Group 5	0	35	30	59	39

[2] Current exchange rate: US$ 1 = 21 VND

Charts

Chart 1. Vietnam GINI coefficient

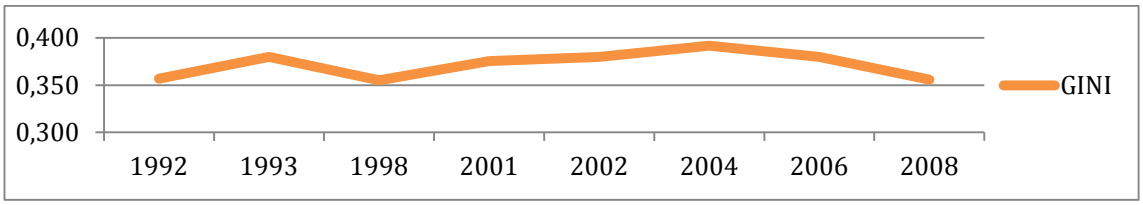


Chart 2. India GINI Index since 1983

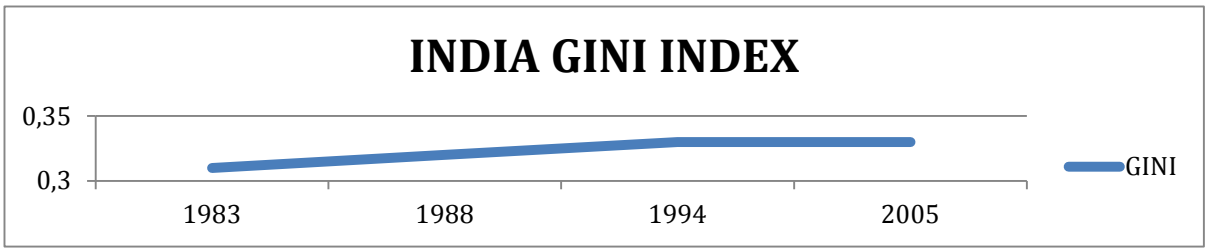


Chart 3: China GINI Index sine 1981

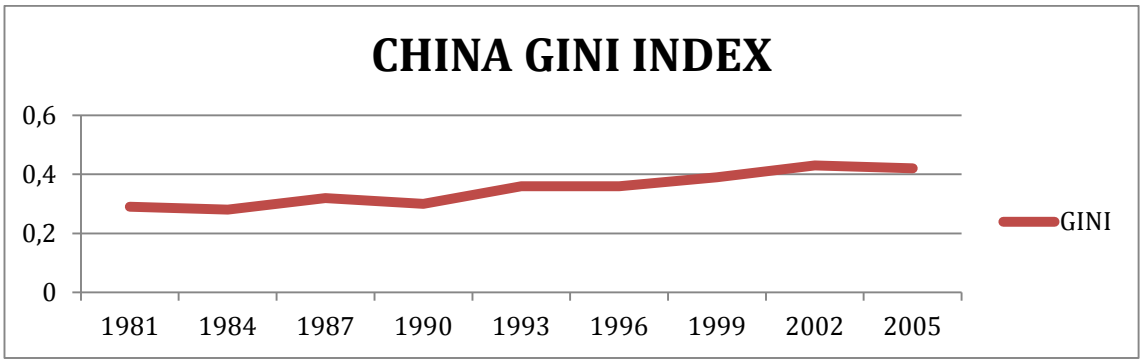


Chart 4. Percentage of Changes in Monthly Incomes