



Development Progress



Viet Nam's progress on economic growth and poverty reduction:

Impressive improvements

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List of abbreviations

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
CPRC	Chronic Poverty Research Centre
DFID	United Kingdom Department for International Development
DHS	Demographic and Health Survey
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSO	General Statistics Office
HIV	Human Immunodeficiency Virus
ICT	Information and Communication Technology
LDC	Least-Developed Country
MDG	Millennium Development Goal
MICS	Multiple Indicator Cluster Survey
ODI	Overseas Development Institute
PPP	Purchasing Power Parity
U5MR	Under-Five mortality Rate
UN	United Nations
UNDP	UN Development Programme
UNICEF	UN Children's Fund
UNU-WIDER	UN University World Institute for Development Economics Research
US	United States
VASS	Viet Nam Academy of Social Sciences
VHLSS	Viet Nam Household Living Standards Survey Results
VLSS	Viet Nam Living Standards Survey
WDI	World Development Indicator
WIID	World Income Inequality Database
WTO	World Trade Organization

1. Introduction

Viet Nam has exhibited one of the highest rates of economic growth and poverty reduction in the world, albeit one accompanied by higher inequality.

Several factors underpinned these improvements. First was pragmatic party leadership, which encouraged both internal debate and policy innovations based on a trial-and-error approach. Second were strong governing and market institutions. Third was a wide-reaching network of infrastructure that enabled efficient and effective implementation of economic reform policies. Fourth was equitable initial investment in human development, which meant the populace was primed to take advantage of economic opportunities. Fourth, equitable land reform with targeted investment in agriculture brought significant increases in agricultural yields and poverty reduction in rural areas.

Viet Nam has been able to sustain this progress for two decades, thanks to the effective adoption and implementation of *Doi Moi*; continued equitable land reform; pragmatic, careful and sequenced liberalisation; and macroeconomic reforms and the ability to consistently attract foreign investment. A strong sense of social solidarity and equity has also contributed to effective policy and implementation, as well as to continued investment in human development (albeit not benefiting all), leading to significant improvements in human capital, thus enabling people to take advantage of market opportunities. Remaining challenges include rising inequality, environmental degradation and corruption.

2. Context

The rate of economic development in Viet Nam since the 1990s has been exceptionally rapid, and has remained unsurpassed by most developing countries. Only 20 years ago, the country was among the poorest in the world. It was emerging from decades of war, which had left a damaged infrastructure, many people dead and millions injured or displaced (Rama, 2008). Following 'liberation' in 1975, Viet Nam was formally reunified in 1976. Foreign military presence in the South and central planning in the North had made both economies weak. Economic mismanagement and the ongoing occupation of Cambodia contributed to poor performance following reunification until after the introduction of the *Doi Moi* reform policies in the 1980s.

Box 1: Burkina Faso and Viet Nam – similar starting points, decisively distinct development paths

Bernabè and Krstic (2005) draw parallels between Viet Nam and Burkina Faso in the early 1990s. Both had a gross domestic product (GDP) per capita of roughly \$240 per year,¹ a poverty rate of approximately 55% (based on national poverty lines) and a concentration of poor people in rural areas (about two-thirds of rural households were poor). Both were highly rural and agricultural economies, with approximately 80% of the population living outside urban areas. Yet, between 1990 and 2010, they followed distinct development paths.

Viet Nam enjoyed high average annual growth rates between 1990 and 2008, coupled with a dramatic reduction in poverty over the same period. Burkina Faso, on the other hand, has seen moderate growth and little poverty reduction in the past two decades.

The distinct development paths can be explained by Viet Nam's unique set of initial conditions (see Section 4). Bernabè and Krstic (2005) highlight low levels of inequality, high levels of human capital, structure of employment and population density. Viet Nam built on this foundation with a set of well-designed and well-implemented development and reform policies.

After the reunification of North and South, Viet Nam faced an economic crisis, including serious food shortages. In the late 1970s and early 1980s, economic development was paralysed by high inflation, low productivity, low-quality export standards, energy shortages and inefficient management of the economy (Levinson and Christensen, 2002). Food supply fell short of national demand, and some areas of Viet Nam suffered from chronic food insecurity. In 1987, for example, the state-owned media reported that 'about ten million people in the Northern provinces suffered severely from starvation' (ibid).² Deteriorating living standards undermined the legitimacy of the Communist Party.

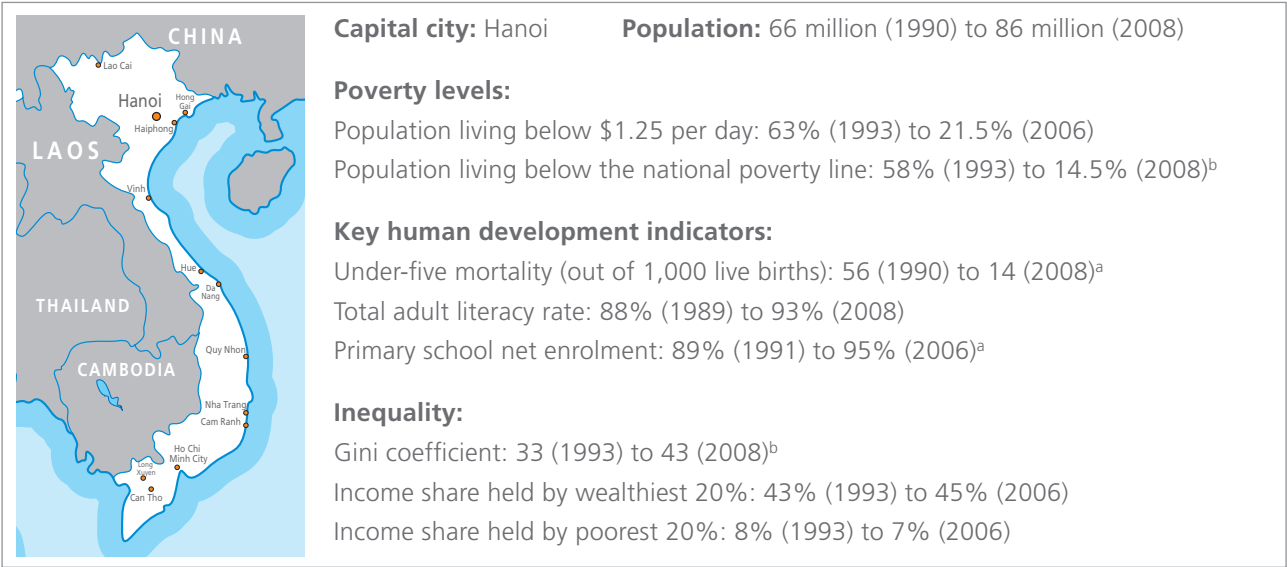
In response, Viet Nam's government began a process of economic reforms, shifting towards a more market-based economy using a trial-and-error approach. There was gradual recognition of the important contribution of private initiative to economic development. The government began recognising contracts signed between state enterprises as well as with private entrepreneurs in order to address bottlenecks in the supply of agricultural inputs (e.g. tools and fertiliser) (Levinson and Christensen, 2002). These contracts were part of its 'fence breaking' experiments (see Box 4 in Section 4), which initially did not have a legal basis.

¹ Note that in purchasing power parity (PPP) terms, Burkina Faso's GDP per capita was \$912 in 1994, whereas Viet Nam's was \$1,384 (constant 2000 US\$).

² Starvation and food supply problems were a result largely of past economic mismanagement (fiscal deficits, price controls, multiple exchange rates, etc), as well as the US embargo and the decline of the former Communist countries.

A decisive political shift came in the late 1980s, which enabled significant economic reforms and a ‘multidirectional foreign policy orientation.’³ In 1986, during the Sixth Party Congress, liberal reformers gained critical influence in the party (Rama, 2008). By the late 1980s, considerable economic, social and political reforms were underway, contributing to noteworthy improvements in economic conditions and in human development – albeit unequally so.

Box 2: Snapshot of progress in economic conditions in Viet Nam



Source: WDI database unless otherwise indicated. ^a UNICEF MICS. ^b VHLSS (1993) VHLSS (2008).

³. Economic reforms included Doi Moi policies and foreign policy aimed and succeeding at re-establishing economic relationships with the US (which removed its trade and aid embargo) and neighbouring countries (when it became a member of the Association of Southeast Asian Nations (ASEAN)).

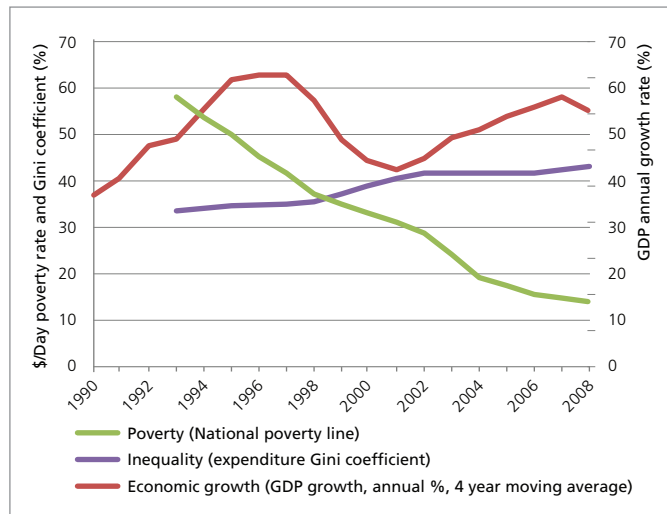
3. What has been achieved

Economic conditions, as defined here, include economic growth, improvements in equity and poverty reduction.⁴ Improvements in economic conditions are important for progress to be achieved. However, their impact in terms of improvements in human development depends on the distribution of benefits across the population. Equitable and sustainable progress in economic conditions means the benefits of development are shared across the population and that the pattern of growth serves an equalising function.⁵

3.1 Economic growth

Viet Nam's economy was transformed in the 1990s through a series of economic, social and political reforms. These contributed to an average annual growth rate of 7.4% per year between 1990 and 2008, coupled with a dramatic reduction in poverty from 58% to 14.5% between 1993 and 2008, based on the national poverty line and a fall in the proportion of people living under a dollar a day from 63% to 21.5% between 1993 and 2006 (see Figure 1).

Figure 1: Trends in economic conditions in Viet Nam, 1990-2008



Source: VLSS 1993 and 1998 (poverty data in those years); UNU-WIDER WIID (inequality data 1993 and 1998); VHLSS (poverty and inequality data 2002, 2004, 2006, 2008).

⁴. Three aspects of improvements in economic conditions are : 1) growth, 2) poverty and 3) inequality. Indicators used to capture these aspects include: 1) annual GDP growth rates and household final consumption expenditure per capita; 2) proportion of the population below the international and the national poverty lines; and 3) the Gini coefficient. As these indicators capture macro and average trends, the distribution of progress remains concealed. Even the Gini coefficient, a measure of inequality, is relatively insensitive to changes in the middle range of a distribution. To identify examples of equitable and sustained progress in economic conditions, we used analysis drawing on complementary qualitative and quantitative data (e.g. trend analysis, calculating annual average rates of progress of quantitative indicators).

⁵. High inequalities undermine economic growth and its poverty-reducing potential. They are related to political and social instability and contribute to ill-health in the population.

From being a least-developed country (LDC) in 1990, Viet Nam is set to join the ranks of middle-income countries by 2011. This high level of growth has been largely export led, and investment has also played an important role.

Exports rose by an average 21% per year between 1991 and 2007, with the exception of dips in 1991, 1998 and 2001 (see Table 1 and Figure 2), and also in 2009. Troughs in exports are reflected in the annual GDP growth rate trend depicted in Figure 1 – pointing to the important share of exports in GDP growth.

The 1991 dip is explained by the collapse of Viet Nam's key trading partner in the socialist trading bloc. In 1998, the drop was induced by the Asian financial crisis – when Viet Nam experienced a drastic outflow of foreign direct investment (FDI). In 2001, low prices of crude oil and primary commodities (key exports of Viet Nam) explain the fall. Reduction in United States (US) and European Union (EU) demand, resulting from the global economic crisis, explains the recent fall in Viet Nam's growth.⁶

The rapid growth in Viet Nam's exports between 1995 and 2008 was driven by three areas: light industrial and handicraft goods (45.6%); agricultural and aquatic products (16.6%); and heavy industrial products and minerals (namely, crude oil)⁷ (30.6%) (Hanh, 2010) (see Figure 2 for an illustration of the large expansion of export growth in Viet Nam).

From having been a marginal player on international markets, Viet Nam has become one of the leading exporters of a number of agricultural commodities – such as rice and coffee. This pattern has been repeated in the manufacturing sector, which saw an approximately 14-fold increase in exports from 1995 to 2007.⁸

Table 1: Viet Nam's trade balance

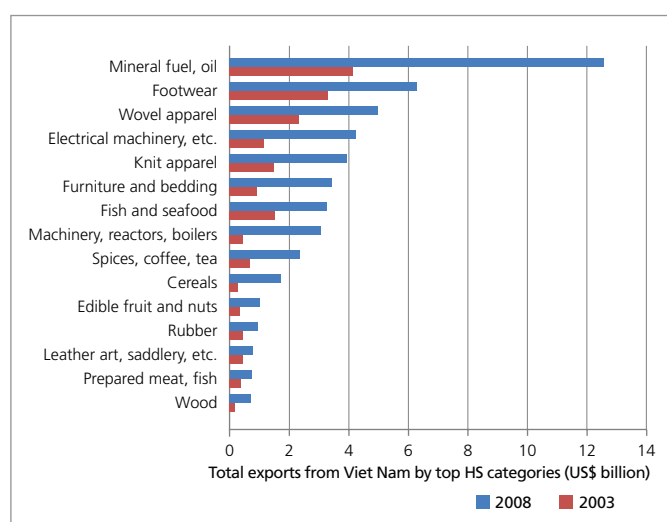
Year	Value (\$ million)			Trade balance	% annual increase in exports
	Total trade	Of which Exports	Imports		
1990	5156.4	2404	2752.4	-348.4	
1991	4425.2	2087.1	2338.1	-251	-13
1992	5121.5	2580.7	2540.8	39.9	24
1993	6909.1	2985.2	3923.9	-938.7	16
1994	9880.1	4054.3	5825.8	-1771.5	36
1995	13604.3	5448.9	8155.4	-2706.5	34
1996	18399.4	7255.8	11143.6	-3887.8	33
1997	20777.3	9185	11592.3	-2407.3	27
1998	20859.9	9360.3	11499.6	-2139.3	2
1999	23283.5	11541.4	11742.1	-200.7	23
2000	30119.2	14482.7	15636.5	-1153.8	25
2001	31247.1	15029.2	16217.9	-1188.7	4
2002	36451.7	16706.1	19745.6	-3039.5	11
2003	45405.1	20149.3	25255.8	-5106.5	21
2004	58453.8	26485	31968.8	-5483.8	31
2005	69208.2	32447.1	36761.1	-4314	23
2006	84717.3	39826.2	44891.1	-5064.9	23
2007	111326.1	48561.4	62764.7	-14203.3	22
Annual average (1990-2007)					21

Source: GSO (various years).

⁶. The Vietnamese government aimed to counter this with a stimulus package.

⁷. Oil accounted for roughly one-fifth of all exports in 2008. It was followed by footwear, apparel (both woven and knit), electrical machinery, furniture and fishery products (Hanh, 2010).

⁸. General Statistics Office (GSO) figures on manufactured products are \$1,784.80 for 1995 and \$26,886.10 for 2007.

Figure 2: Viet Nam's exports by major harmonised commodity description and coding system (HS) category, 2003-2008

Source: Hanh (2010).

Viet Nam has taken advantage of opportunities in international markets. Its comparative advantage of a low-cost, high-quality labour force⁹ has attracted large inflows of FDI to produce simple exports. The careful manner in which Viet Nam liberalised and opened its economy meant that FDI provided steadily expanding work opportunities, as well as strengthening the knowledge and skills base of its labour force (elaborated in Section 4).¹⁰ This enabled the country to attract and take advantage of opportunities higher up the value chain. Between 1990 and 2008, agriculture's share in GDP dropped from 38.7% to 22.1%, whereas that of industry rose from 22.7% to 29.7% and that of manufacturing from 12.3% to 21.1% (WDI database).

The expanding economy has enabled households to more than double consumption expenditure per capita (from \$211 in 1994 to \$439 in 2008, in constant 2000 US\$), and the government to expand social investment. Viet Nam's widening fiscal space has resulted in investment in infrastructure to continue supporting smallholder agricultural productivity – specifically around irrigation, transport and supply of improved inputs (seed varieties, fertilisers and insecticides).

Environmental degradation has accompanied Viet Nam's progress in economic conditions, however, and is considered unsustainable, as it is likely to undermine future growth. There has been a political and public willingness to 'sacrifice' environmental assets in achieving Viet Nam's growth pattern (Bass et al., 2010). It is estimated that 'three environmental problems alone – particulate emissions, carbon dioxide damage and the net loss of Viet Nam's forests – [will] reduce gross national income by 2.1%' (ibid).

3.2 Income poverty and inequality

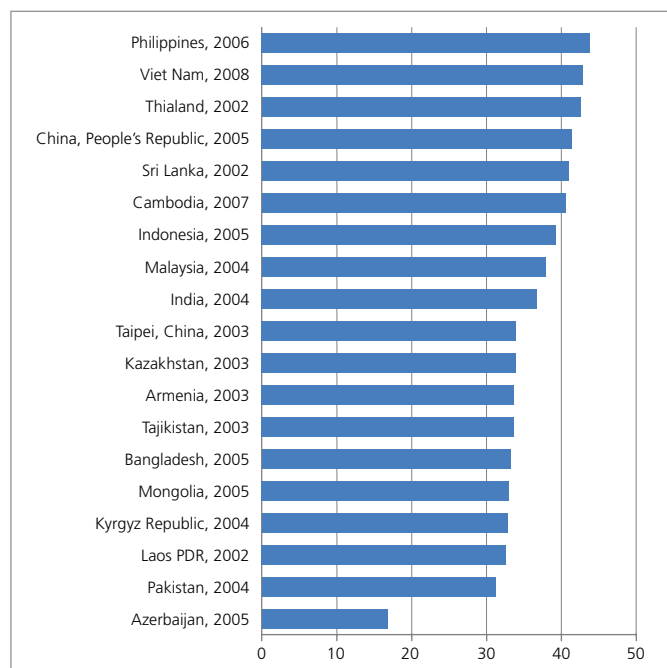
Growth has enabled significant progress, but this progress has not been equitable – although it started from a relatively equitable point. Poorer groups, ethnic minorities and rural populations have seen their share in economic progress decline. Income growth has been concentrated mainly around the large cities and in areas with export-oriented economic activities. Growth has been slower in the Northwest and Central Highlands regions and among particular ethnic minorities. This has exacerbated income inequalities. The income share held by the wealthiest fifth of the population rose from 43% in 1993 to 45% in 2006; that of the poorest fifth fell from 8% to 7%.

⁹. With high literacy among the Vietnamese population since the 1990s.

¹⁰. Recent FDI activities are shifting away from manufactured goods and labour-intensive sectors to hotels and real estate (Hanh, 2010).

Meanwhile, the Gini coefficient rose from 33 in 1993 to 43 in 2008¹¹ (see Figure 3 for comparative figures, and also Figure 1 above): disparities between urban and rural populations, between ethnic minorities and the majority of the population and between the rich and poor have widened.

Figure 3: Gini coefficients in Asia



Source: Gini for Viet Nam sourced from the recently published results of the VHLSS. Ginis for other countries are taken from ADB (2009).

Box 3: Viet Nam versus China and India

Viet Nam's rapid growth has been as impressive as that in China or India, but it has also been inequitable. Perhaps less inequitable than in China, because of a combination of geography, equitable provision of services (especially education), equitable distribution of land, a high degree of female participation in the workforce and a decentralised power structure. Rising inequality in the country is worrying, however, and threatens the sustainability of progress in economic conditions (Kokko, 2008; Rama, 2008). Thus, the current challenge is to better understand what is needed to reverse widening disparities in income, education quality and health services – which will all undermine future growth. Indonesia and Malaysia may offer some clues on this topic.

¹¹. Based on expenditure data. Data source for 1993 is GSO Viet Nam Living Standards Survey (VLSS) 1993; for 2008 figure it is GSO Viet Nam Household Living Standards Survey (VHLSS) 2008. 2008 results were obtained during this paper's revision.

Viet Nam has exhibited one of the largest declines in poverty (in absolute levels) in the world. Based on the official national poverty line,¹² poverty fell from 58% to 14.5% between 1993 and 2008¹³ – this is an average rate of 3 percentage points per year.

The pattern of poverty reduction, however, has contributed to widening disparities between regions and ethnic groups (see Baulch et al., 2010). In absolute terms, poverty in rural areas has fallen faster than in urban areas, 3.2 versus 1.5 percentage points per year, respectively. In relative terms, however, inequality between the two regions has widened. In 1993, poverty in rural areas was 2.6 times higher than in urban areas. By 2008, it was 5.7 times greater. Poverty is concentrated in the Northeast, North Central Coast and Central Highlands – with approximately a third of the population in those regions living below the poverty line. In absolute terms, poverty in these regions has fallen faster than in the rest of the country. Disparities between these regions and the rest of the country, however, expanded between 1993 and 2006.¹⁴ The prevalence of poverty among ethnic minorities compared with among ethnic majority groups (Kinh and Chinese) widened from a factor of 1.6 in 1993 to 5.1 in 2006 – a striking rise in inequality. Ethnic minorities, comprising approximately 13.5% of the population, constitute 44% of the poor.

Table 2: Poverty rates in Viet Nam

	1993	2006	Absolute average annual progress
Poverty rate			
Poverty headcount, based on official poverty line (% of population)	58.1	14.5 (2008)	-2.9
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	63	21.5	-3.2
Poverty rate in urban/rural areas			
Urban	25.1	3.3 (2008)	-1.5
Rural	66.4	18.7 (2008)	-3.2
Poverty rate by region			
Northern Mountains ¹⁵	81.5	30.2	-3.9
Red River Delta	62.7	8.8	-4.1
North Central Coast	74.5	29.1	-3.5
South Central Coast	47.2	12.6	-2.7
Central Highlands	70	28.6	-3.2
Southeast	37	5.8	-2.4
Mekong River Delta	47.1	10.3	-2.8
Poverty rate by ethnic group			
Kinh and Chinese	53.9	10.3	-3.4
Other	86.4	52.3	-2.6

Source: VLSS (1993); VHLSS (2006 and 2008);¹⁶ WDI database (data for proportion of households spending less than \$1.25 (PPP) per day).

¹² Viet Nam's general poverty line is set by the GSO with assistance from the World Bank. It is based on average monthly expenditure per capita. The poverty line has been adjusted several times in recent years, as follows: 1998 VND 149,000; 2002 VND 160,000; 2004 VND 173,000; 2006 VND 213,000; 2008 VND 280,000.

¹³ VLSS for 1993 and VHLSS for 2008.

¹⁴ Poverty in the Northern Mountains (Northeast and Northwest), North Central and Central Highlands regions divided by poverty rates in all other regions reflects disparities between the poorest regions and the rest of the country. This ratio increased from 1.1 to 2.3 between 1993 and 2006.

¹⁵ Northern Mountains was split into North East and North West regions after 2000. This table maintains the pre-2000 classification.

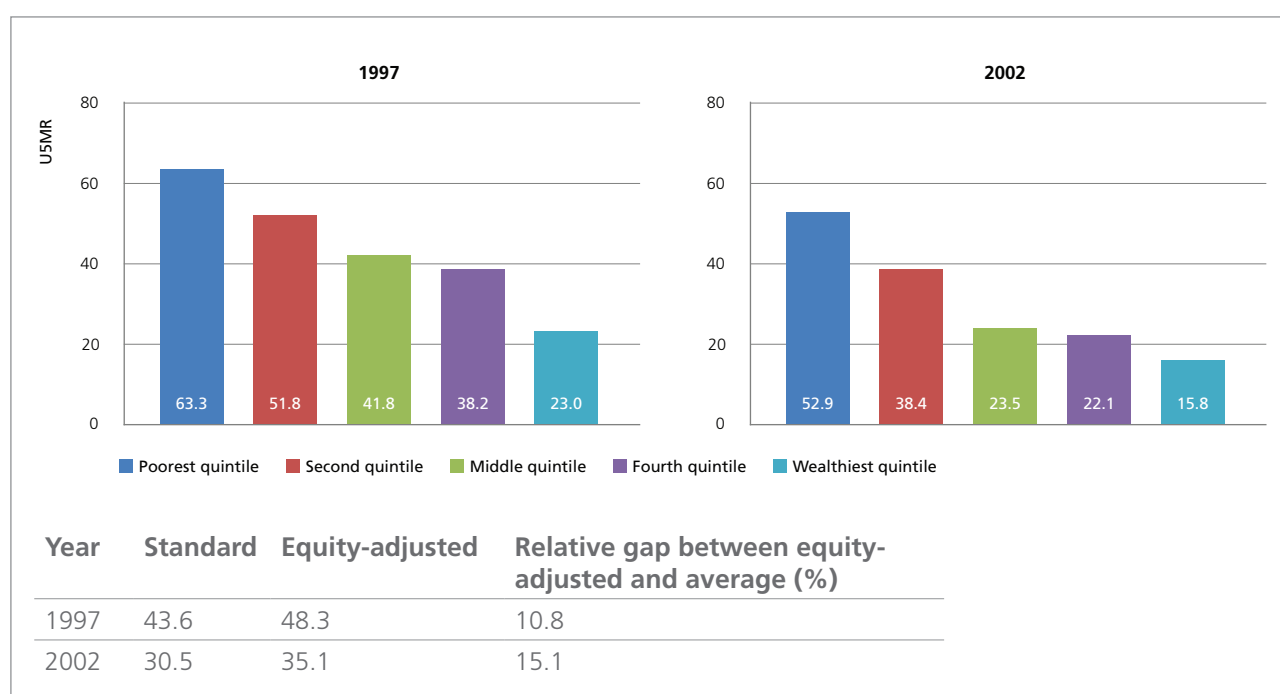
¹⁶ Specific VHLSS 2008 results were obtained during the revision process of this paper.

3.3 Non-economic aspects of development

An expanding budget enabled investment in services to improve health, education, water and sanitation and more (Kokko, 2008). Thus, improvements in economic conditions have been coupled with improvements in human development, albeit unequally.¹⁷

In terms of under-five mortality rate (U5MR) progress in Viet Nam, this has been substantial yet inequitable.¹⁸ Between 1990 and 2008, Viet Nam's U5MR declined from 56 to 14 deaths per 1,000 live births (UNICEF database). The Demographic and Health Survey (DHS) and the Multiple Indicator Cluster Survey (MICS) cover a shorter period of time: they show a notable reduction of U5MR from 43.6 to 30.5 between 1997 and 2002, but improvement has been concentrated among the wealthiest three quintiles (see Figure 4). The gap between the standard and equity-adjusted indicator has widened – from 10.8 to 15.1 – demonstrating this widening in disparities (see Annex 1 for a methodological discussion of the equity-adjusted indicator).

Figure 4: U5MR in Viet Nam, by quintile, 1997-2002



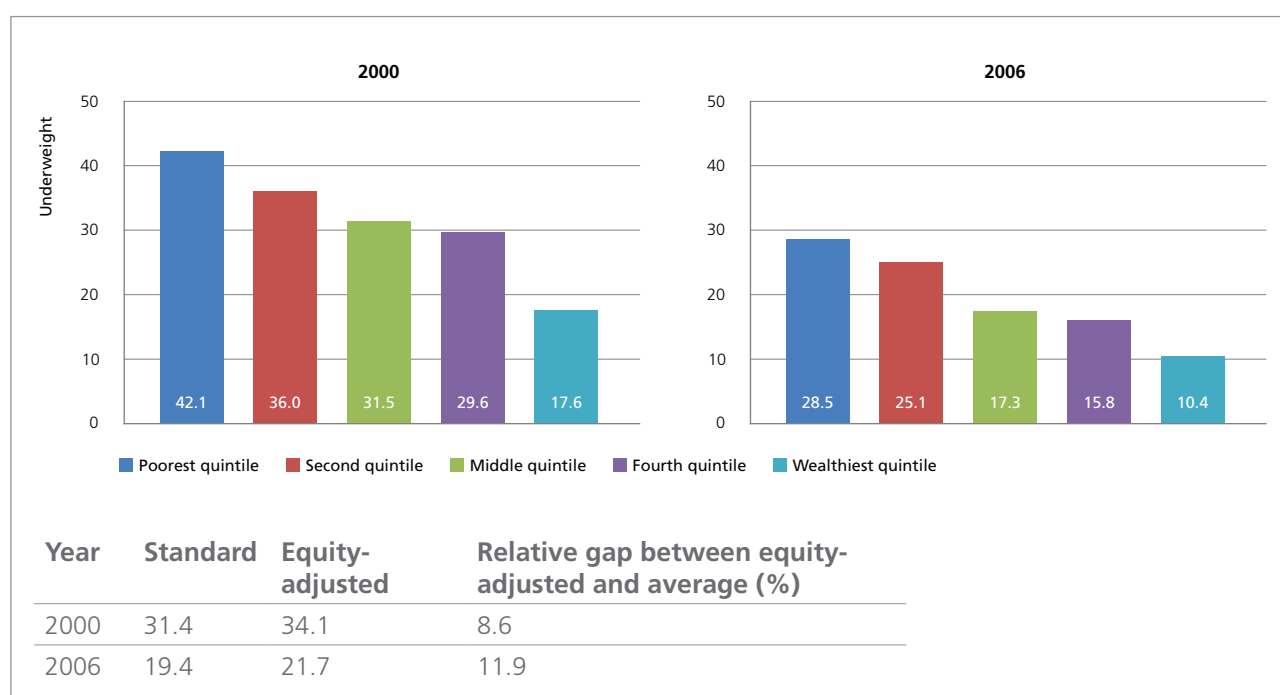
Source: Authors' calculations based on DHS and MICS data.

¹⁷. Allocation of public investment appears to recognise widening disparities, and aims to minimise these, albeit at a superficial level. Examples include cash compensation programmes for redundant workers and the extension of old-age pensions for public and private sector workers (Rama, 2008).

¹⁸. U5MR reflects a host of social, economic and basic service-related factors, and in turn influences average life expectancy at birth. It also reflects: nutritional health and health knowledge of mothers; level of immunisation and oral rehydration therapy use; availability of maternal and health services (including antenatal care); income and food availability in the family; availability of clean water and safe sanitation; and overall safety of a child's environment. The UN Children's Fund (UNICEF) thus identifies U5MR as its single most important indicator of the state of a nation's children.

Progress on underweight prevalence among children has also been substantial but inequitable.¹⁹ The Millennium Development Goal (MDG) database reports a reduction in underweight prevalence from 45% to 20% between 1994 and 2006. This ranks Viet Nam as the second best performer in annual absolute reductions of underweight prevalence across the 106 developing countries analysed. DHS and MICS data cover a shorter period of time – and confirm the notable reduction of underweight between 2000 and 2006, dropping from 31.4% to 19.4%. Despite all quintiles experiencing improvements, some have benefited more than others. The gap between the standard and equity adjusted indicator widened from 8.6 to 11.9, indicating a widening in disparities (see Figure 5)

Figure 5: Underweight children under five in Viet Nam, by quintile, 2000-2006



Source: Authors' calculations based on DHS and MICS data.

Despite progress across several human development indicators, worrying and recent setbacks have been documented, specifically an increasing incidence, since 1998, of wasting among children under 24 months of age throughout the country and of stunting among children over 24 months (particularly ethnic minority children) (Baulch et al., 2010). This has implications for these children's future development and their capacity to learn and potentially participate in economic growth processes.

¹⁹. Underweight prevalence among children under five is an internationally recognised public health indicator for monitoring nutritional status and health in populations. Child malnutrition is linked to poverty, low levels of education and poor access to health services. See www.spc.int/mdgs/MDGIs/indicator_4_definition.htm

4. Drivers of progress

Here, we distinguish between the initial conditions (i.e. early 1990s) that set the foundations for progress and the changes that occurred between 1990 and 2010, which have contributed to sustained progress. This distinction is pertinent in the case of Viet Nam because the turning point in its story of economic progress was in the early 1990s. The literature and our key informants mentioned additional factors, but these fall beyond the scope of this case study.²⁰

4.1 Prerequisites for Viet Nam's progress in economic conditions

4.1.1 Pragmatic leadership

Strong leadership contributes to development only when it supports the implementation of effective and appropriate policy. A key foundation for Viet Nam's progress in economic conditions was pragmatic and non-dogmatic leadership by the Party, not necessarily with strong individual leaders. Within the party, there was an overarching objective to work towards development. Thus, internal debate and policy innovation were encouraged and a trial-and-error approach was accepted. In addition, once a decision was made, full support was expected from all party members, with (partial) accountability mechanisms arising from decentralised power structures and an educated and politically aware population. These 'democratic forces' enabled the adoption and implementation of an effective set of policies, the *Doi Moi* policies, which were crucial to progress in economic conditions.

Key aspects underpinning this pragmatic and effective leadership are as follows. First was the combination of an inward-looking objective to improve life for the Vietnamese people through economic and human development and an outward-looking objective to reduce income and development gaps between Viet Nam and wealthier East Asian countries (Kokko, 2008). These objectives emerged from the government's need to maintain legitimacy: in the years following the war, when macroeconomic performance was poor and living standards were in decline, its credibility was precarious.

Second is the long-rooted tradition in Viet Nam of consensus-based decision making (Rama, 2008), including a desire to avoid creating political losers. This desire is manifest in the government's ability to manage lively debates within the Party in such a way that party fragmentation is prevented (ibid). This, coupled with an openness to a trial-and-error approach to development, resulted in the 'fence breaking' experiments (at the district level), to be adopted and integrated into national-level reforms (informing the *Doi Moi* policies) (Box 4).

Box 4: What is fence breaking?

'Fence breaking,' or *phá rào*, was a term originally used by Vietnamese scholars to describe the violation of central government regulations under central planning. Part of this was a grassroots movement characterised by farmers breaking the rules of the centralised economic system. Fence breaking in the agriculture sector included taking steps towards liberalisation by, for example, engaging in a market of agricultural inputs outside state-mandated channels. These were conducted on the fringe of legality at the time. Fence breaking at the district level brought significant increases in productivity and incomes. Leaders of these experiments had confidence in the party and 'respectfully' made their argument for agricultural reform (Rama, 2008). In a context of falling standards of living, rampant starvation and waning legitimacy, the Party considered these arguments and scaled up the fence breaking experiments to national-level reforms.

²⁰. Additional factors identified include: legacy of good social services; equitable distribution of skills; a strong focus on pushing competition from an early stage; competition initially from trade, but also between state-owned enterprises and the emerging private sector; FDI in the early stages; and geography (spatial and cultural location very close to East Asia).

Third is a strong political backing of new policy, which contributed to effective reforms. Rama (2008) describes the strict application of 'democratic centralism' within the Party, whereby if the majority are clearly in favour of a new policy, their colleagues will fall into line without further questions and will fully support the policy's implementation.

4.1.2 Strong institutions and a wide-reaching foundation of infrastructure

Institutions are broadly defined as the behavioural norms (explicit and implicit) and organisations (formal and informal) that create the incentives for desirable development outcomes. Not only is it important for a country to have institutions in place, but also the quality of a country's institutions is essential.

In the 1990s, Viet Nam had a wide-reaching network of institutions across the country. Historically low resource flows from central government meant provincial governments had to mobilise resources themselves in order to fund their activities.²¹ This tradition for resource mobilisation at the local level also meant that infrastructure was usually built by local institutions, enhancing a sense of accountability and ownership, which contributed to their sustainability. This also led to regional stratification, whereby the richest regions had the best infrastructure: a cross-regional transfer system is now in place (Rama, 2008).²² The decentralised governance system also meant that a wide spread of services, basic infrastructure and institutions was available around the country.²³

Institutions and basic infrastructure were therefore in place (although not necessarily efficient) to implement economic reform and to adopt and disseminate new technologies and ideas.²⁴ The wide reach of institutions and the basic network of infrastructure enabled the spread of ideas (e.g. from China) and agricultural technology that contributed to the surge in productivity. Laos, for example, lacks this wide-reaching network of institutions, making implementation of reforms more difficult.

4.1.3 Equitable initial investment in human development

The pre-1990 government left a legacy of equitable investments in human development, specifically in health and education. Returning to the Burkina Faso Viet Nam comparison set out in Box 1 in Section 2, better and more equitable levels of education in Viet Nam were the key initial conditions differentiating the two countries (see Bernabè and Krstic, 2005).

Recent research describes Viet Nam's ability to attract FDI inflows as 'spectacular.' According to Nguyen and Nguyen (2007), among the key country-specific advantages that enabled Viet Nam to attract FDI was its relatively high level of education and quality of the labour.²⁵

Equitable investment in education set the foundation for future improvements in education, and contributed to a widespread cultural interest in education among the population. Improvements in education are one of the key factors contributing to sustained progress in economic conditions and ability to continue attracting foreign investment (Nguyen and Nguyen, 2007). These improvements may be explained by strong demands from civil society. Some argue that the Communist education system set the foundation for a population that had an understanding of their rights, leading to an active civil society and media that holds the public sector to account.²⁶

²¹. This resulted in enterprises run by local government, which helped create the preconditions for entrepreneurialism.

²². 2000 public expenditure in Viet Nam indicates that public spending is pro-poor but that transfers are less so.

²³. A great deal of the road infrastructure is a legacy of the US war investment, such as the great trunk road; the railroads are a French legacy. Since the 1990s, most infrastructure has been completely upgraded and extended.

²⁴. It should be noted that infrastructure was very rudimentary at the early stages of reform. According to several key informants, there is still scope for improvement in infrastructure, as this remains a key bottleneck – with the exception of information and communication technology (ICT), which has improved dramatically and been a key factor in the successful introduction of new technology, ideas and access to markets.

²⁵. As well as Viet Nam's strategic location in a rapidly growing region; its stable economic and political environment; its large natural mineral resources; its large and growing domestic market; its potential to be an export platform for the EU and US markets; and its liberal investment and government commitment to economic reform (Nguyen and Nguyen, 2007).

²⁶. For example, if people feel corruption or poor government performance has gotten out of hand, they protest in front of the national assembly (key informant interview).

4.2 Key factors enabling Viet Nam to sustain its progress in economic conditions

4.2.1 Effective implementation of Doi Moi policies

The *Doi Moi* policies, officially adopted in 1986 and implemented over subsequent years, represented a turning point in Viet Nam's economic development. They crystallised intensive internal debates and symbolised a move away from the previous policies of a centrally planned economy. They reflected,

'An agreement on the need for policy reforms aimed at reducing macroeconomic instability and accelerating economic growth, and that all economic levers (price, wages, fiscal and monetary policies) were to be used to achieve these objectives' (Van Arkadie and Mallon, 2003).

Policies included in *Doi Moi* aimed at abolishing the system of bureaucratic centralised management (based on state subsidies) and replacing it with a multi-sector market-oriented economy, whereby the private sector had a role of competing with the state in non-strategic sectors (Van Arkadie and Mallon, 2003). Investments under *Doi Moi* were targeted towards three main objectives: agricultural development; production of consumer goods; and trade and foreign investment (ibid).

The results were notable. The high inflation rates of the mid-1980s were tamed and nominal interest rates fell, generating a more stable and predictable investment climate. Complementary short-term macro policies (which were not necessarily part of *Doi Moi*) also played a role in taming hyper inflation (Wood, 1989). Industrial development accelerated. Chronic food shortages were transformed into large export surpluses. An outward-oriented foreign policy calmed diplomatic and economic relations with the US and other countries. Trade reforms resulted in a rapid increase of foreign trade, and numerous foreign investors were attracted in the mid-1990s, bringing with them significant and much-needed capital technology. Altogether, the reforms generated annual GDP growth rates exceeding 9% in the mid-1990s, with corresponding improvements in living standards for large segments of the population (Kokko, 2008).

The central components of this policy package were four-fold. They included: 1) equitable land reform; 2) liberalisation of the agriculture sector; 3) a pragmatic and sequenced liberalisation that allowed Viet Nam to consistently attract and benefit from foreign investment; and 4) continued investment in human development. A strong sense of social solidarity and equity underpinned policy and implementation.

4.2.2 Sustained equitable land reform

The egalitarian redistribution of agricultural land, combined with the liberalisation of trade in commodities, did much to boost rural living standards and reduce poverty (Rama, 2008). A series of land laws and the existence of an active informal market for land-use rights led to a resolution in 1988, which decollectivised farmland and granted individuals property rights (albeit to a limited extent). Its implementation occurred in a remarkably egalitarian way (Klump and Bonschab, 2004). A few years later, the Land Law of 1993 created a market in land, allowing for land inheritance, transfer, exchange, lease and mortgages. By 2000, nearly 11 million titles had been issued. This, complemented by targeted investment in the agriculture sector, contributed to significant increases in agricultural yields. Viet Nam went from being a net importer of rice to being the second largest exporter in the world today. These reforms also led to high poverty reduction in rural areas, as they diversified rural incomes (Klump and Bonschab, 2004; Rama, 2008).

Continued equitable land reform, initiated in the late 1980s, was a key component underpinning continued progress. Well-intentioned land reforms have sometimes resulted in a reconsolidation of land by the wealthy or by corporations – Cambodia is a case in point, where laxer regulations resulted in land consolidation for commercial farming. In Viet Nam, though, careful land reform, which distributed the assets of production relatively equitably, and strict regulation on consolidation prevented reconsolidation of land by elites in subsequent years.

4.2.3 Agriculture sector reforms

Agriculture has been central to Viet Nam's economic growth and poverty reduction story, with 80% of the population employed in the sector. Agricultural reforms in 1988 provided farmers and private enterprises with a much larger role. Additional reforms included the abolition of centrally planned targets and prices, an option for farmers not to join cooperatives and permission for farmers to sell produce on the open market. Concomitantly, in an effort to diversify the economy, state-owned enterprises were reformed and budget reallocated from heavy to light industries (Levinson and Christensen, 2002). During the second half of 1988, foodstuff production increased considerably and Viet Nam even became one of the world's leading rice-exporting countries. However, growth has been slower in the Northwest and Central Highlands regions.

These reforms sustained growth in agriculture well into the 2000s. Agricultural growth has been supported by investment in light manufacturing and access to improved farming technology innovation around new seed varieties, insecticides, fertilisers and other inputs, as well as infrastructure such as irrigation, transport and electricity. Viet Nam not only has expanded its existing crop production, but also has moved into new markets and is now a major player there (e.g. coffee, cashews and pepper).

The increase in agricultural labour productivity, combined with strong domestic and foreign demand for agricultural produce, saw a rise in the majority of poor people's earnings. It also increased domestic demand for non-agricultural goods and services produced by poor people. In turn, this growing domestic and international demand for low-skilled informal goods and services created higher earning opportunities for agricultural workers and further reduced poverty. Increasing non-agricultural earnings expanded demand for agricultural goods and services, creating a virtuous circle of growth and poverty reduction (see Bernabè and Krstic, 2005).

4.2.4 Pragmatic and sequenced trade liberalisation

Viet Nam did not go for the big bang approach to reforms. Rather, since the mid-1980s, it has followed a two-track approach. It engaged in state trading, maintained import monopolies and retained quantitative restrictions and high tariffs (30% to 50%) on agricultural and industrial imports (UNDP, 2003). Despite high trade barriers, the country was able to integrate rapidly into the global economy. Contrary to economic orthodoxy, these strategies have been exceptionally successful – expanding trade at double-digit rates on an annual basis and attracting substantial FDI.

Measures to attract FDI aimed at boosting investment capital, technology transfer, management skills and job creation. Viet Nam passed its first Law on Foreign Investment in 1987. Liberalisation was slow – the law was amended several times, in 1992, 1996 and 2000, and in 2007 Viet Nam joined the World Trade Organization (WTO) (Nguyen and Nguyen, 2007). This measured liberalisation aimed to remove obstacles to foreign investors operating in the country, while protecting its national industries, promoting industrial upgrading and retaining management and manufacturing skills within national borders. Initial inflows of FDI were directed to labour-intensive sectors, for example, which provided an avenue out of poverty for unskilled workers (Rama, 2008).

A particular challenge is that, since 2003, Viet Nam has pursued pro-cyclical macroeconomic policy. Looser fiscal and monetary policy has allowed large inflows of foreign capital and rapid credit growth. The fiscal deficit has expanded as a result of significant increases in public investment programmes and lending to state-owned enterprises. In the mid-2000s, however, FDI experienced a strong shift from manufactured goods to hotels and real estate, rather than to fundamental value-creating activities (Hanh, 2010). This exposes Viet Nam to opportunistic and speculative investors.

4.2.5 Continued investment in human development

Economic growth has allowed the government to invest more resources in human development. Improvements in formal education have been the most notable. The National Education for All campaign in 2003 resulted in a 20% increase in the government's education budget – one of the highest in Asia (Oxfam, 2006). The primary net enrolment ratio is therefore above 95%.

In terms of health care, Viet Nam has maintained a far-reaching health system, from central to grassroots levels. Program 135, for example, created in 1998, provides financial assistance for poor communes, especially those in remote mountainous areas. This assistance has also been used for irrigation, schools and the construction of commune centres (Klump and Bonschab, 2004). The National Hunger Eradication and Poverty Reduction Program (HEPR), also implemented in 1998, included a variety of benefits, including 'poor household certificates' and 'health insurance cards' that provided free medical treatment and some partial exemption from school fees (ibid). According to Le (2006), these investments have contributed to Viet Nam having a highly flexible and literate labour force.

However, evidence suggests that public investment remains limited and insufficient to address rising inequalities, and that out-of-pocket costs in secondary education and in health care constitute a severe obstacle for large shares of the population (Kokko, 2008). Unexpected health care costs, for example, are cited as the main reason individuals and households fall into poverty (ibid).

4.2.6 Social solidarity and equity in policy and implementation

A sense of equity is highly valued in Viet Nam, both by the population and by government.²⁷ Rama (2008) writes that 'Vietnam's success in adopting comprehensive reforms is also associated with the determination to avoid creating losers from a material point of view.' This was reflected in policy designs that aimed to improve living standards and avoid rising inequality. The former objective has gained precedence, however, while inequality has been rising. Economic growth and price stability have remained central objectives of Viet Nam's macroeconomic management (Kokko, 2009).

Examples of policies that aimed to maintain equity range from the egalitarian land distribution at the initial stages of the *Doi Moi* process, to targeted investments in remote regions, as well as waiving education and health fees for poor people. This sense of solidarity has its limits, however. Some groups are considered to be the 'undeserving poor' (i.e. those who, according to society, do not deserve to be poor), whereas those exhibiting 'social evils' (e.g. people living with HIV, alcoholics, sex workers) are considered to be 'deserving poor.'

²⁷ This is important if the government is going to use public funds in the delivery of social services.

5. Conclusions

Between 1990 and 2010, Viet Nam's economy has seen impressive improvements. It has progressed from being among the poorest countries in the world to entering the ranks of middle-income countries (economic analysts state that Viet Nam is set to achieve middle-income status by 2011/12). From being a relatively closed economy, the country has become one of the leading exporters of several food crops. It has made tremendous leaps in terms of economic growth and poverty reduction. Despite this progress, Viet Nam has seen significant rises in inequality across the board, experiencing widening income, health and education gaps.

5.1 Key lessons

Viet Nam provides several lessons in relation to progress in development. As with the analysis above, these are discussed in two sets.

Key initial conditions that set the foundations for progress include the following:

- **Pragmatic party leadership** encouraging internal debate and trial-and-error approaches contributed to the adoption and implementation of an effective and appropriate set of reform policies.
- **Strong institutions and a wide-reaching base of infrastructure** enabled efficient and effective implementation of economic reform policies.
- **Equitable initial investment in human development** primed the populace to take advantage of economic opportunities.
- **Equitable land reform** with targeted investment in the agriculture sector brought significant increases in agricultural yields and poverty reduction in rural areas.

Factors contributing to sustained progress include the following:

- **A comprehensive policy package with a shared objective.** In Viet Nam, the effective adoption and implementation of *Doi Moi* policies was central to the country's progress in economic conditions. Their central aim was to provide the people with tangible improvements in living standards through economic growth.
- Equitable redistribution of factors of production (**land reform**) complemented by the gradual **liberalisation of and investment in agriculture** supported equitable growth in the sector.
- **A pragmatic and gradual liberalisation process** followed a two-track approach: protecting some sectors while liberalising others and designing measure to attract FDI into labour-intensive industries. Viet Nam's story of progress challenges the orthodoxy of liberalisation, privatisation and fiscal austerity.
- Maintaining Viet Nam's comparative advantage of being a country with high-quality and low-cost labour entailed **investment in human development**, which contributed to the continued inflow of foreign investment. Investment in human development enables people to take advantage of market opportunities – particularly those who are usually excluded. Examples include providing electricity, irrigation, education and health services to mountainous highland areas.
- **Supporting a strong sense of social solidarity and equity** can contribute to effective policy design and implementation.

5.2 Challenges

Several challenges have emerged alongside Viet Nam's impressive progress in its economic conditions, which could potentially undermine its long-term sustainability. Three key challenges in particular deserve special attention:

- Government's overarching policy has focused on delivering economic growth.²⁸ The resulting impressive results have led to dramatic changes in Vietnamese society. **Gaps in income and non-income dimensions of well-being** have grown alarmingly high, though. Education gaps persist between wealth groups (Le, 2006), as do inequalities in child mortality and nutrition. Poverty inequities have increased between urban and rural areas, between ethnic minority and majority groups and between regions. This is widely recognised as a future challenge for development. The economist Vo Tri Thanh, Deputy Head of the Central Institute for Economic Management, highlights growing inequality as 'one of our main problems for the future' (in Beaugé, 2010).

Rising inequality undermines not only the poverty reduction potential of economic growth, but also economic growth itself, through several channels – such as social, financial and political instability. Martin Rama, a former Lead Economist for the World Bank in Viet Nam, writes that,

'Growing inequality and displays of conspicuous wealth could generate social resentment, especially if the prevalence of corruption casts doubts on the legitimacy of the new fortunes. Weak mechanisms to gather and process the demands of specific population groups, no matter how narrow, could encourage them to voice their frustration through unauthorized channels, resulting in political turmoil' (Rama, 2008).

Concern over rising inequality is emerging as a priority in government discourse. If Viet Nam is to sustain progress in economic conditions, it must ensure an equalising growth pattern. For this to occur, fundamental changes are necessary to its growth model.

- Viet Nam has relied on economic expansion through extensive use of natural resources, including its land, water and forests. This trend in development alongside **environmental degradation** is not unique to Viet Nam. Neighbouring countries have followed a similar pattern of high economic growth at the cost of environmental resources. Nevertheless, this progress is environmentally unsustainable. Several problems arise: uncontrolled pollution from agricultural production; overuse and misuse of agricultural chemicals such as pesticides, fertilisers and insecticides, posing health threats to farmers and consumers; dramatic increases in pollution from off-farm activities, with reports of increasing water contamination, air pollution, solid waste and more; and overexploitation of natural resources such as ground water, forests and inshore fisheries. Moreover, such environmental damage often results in costs borne disproportionately by the poor and poorest. Rama (2008) cautions that:

'In relation to the environment, industrialization is advancing at a fast pace before instruments for pollution control and natural resource management are effective. The consequences could be costly to reverse later on ... the uneven pace of reforms may not result in short-term crises, but the long-term consequences cannot be ignored.'

- **Corruption** has been highlighted as a grave concern in relation to sustained progress in economic conditions. Not only does it increase the cost of programmes, but also it distorts the allocation of public funds to the interests of the decision makers, rather than to those who need the funds. Respondents emphasise that systemic weaknesses in the government structure need to be addressed effectively if consistent sustained growth is to be achieved. Addressing corruption is currently on the reform agenda in Viet Nam – for example, in 2009 the National Anticorruption Strategy to 2020 was approved. Some argue that initiatives to address the problem are insufficient, however.

²⁸ Although Viet Nam has policy aimed at poverty reduction, this objective is considered secondary to achieving economic growth.

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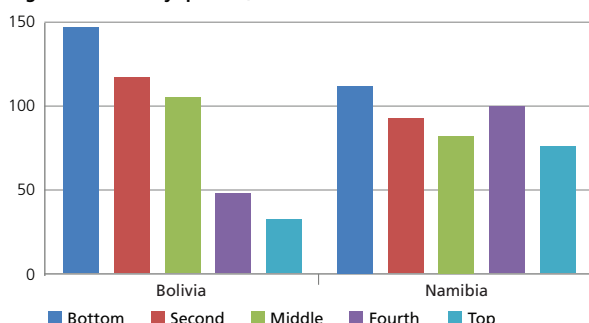
Annex 1: Equity-adjusted indicator explained

Aggregate data (MDG and WDI databases) point to substantial progress, and disaggregated data on child health (DHS and MICS) point to equitable progress. This paper focuses on U5MR²⁹ and the rate of underweight children under five years of age.³⁰ These were selected because they reflect wider health and education problems and because they are well-documented statistically.

Equity-adjusted indicators aim to capture the distribution of human development outcomes. Here, the equity-adjusted indicator used is derived from the Vandemoortele and Delamonica (2010) methodology, whereby progress among poorer quintiles is weighted more heavily (see box below). Equity-adjusted indicators capture both the scale and distribution of performance on a human development indicator. Essentially, equity-adjusted indicators reflect the level of performance, and are adjusted upwards for more equitable performance and downwards for inequitable progress.

What does equity-adjusted analysis look like? Equity-adjusted indicators by income quintile, U5MR in Bolivia vs. Namibia

Figure A: U5MR by quintile, Bolivia and Namibia

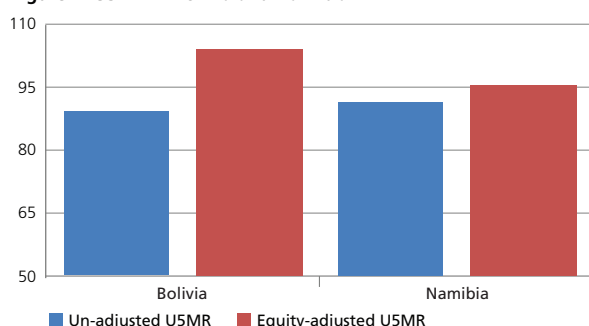


Bolivia and Namibia have similar national U5MRs. However, a disaggregated view (Figure A) by income quintile shows that a child in the bottom quintile in Bolivia is much worse-off than one in Namibia. A wealthy child in Bolivia, on the other hand, faces less risk of death before their fifth birthday than their counterpart in Namibia. Thus, a heavier weighting of performance at the bottom of the income spectrum will provide an equity-adjusted indicator of U5MR:

Quintile-specific weights

Quintile	Standard unadjusted	Equity-adjusted
Bottom	20%	30%
Second	20%	25%
Middle	20%	20%
Fourth	20%	15%
Top	20%	10%
Total	100%	100%

Figure B: U5MR in Bolivia and Namibia



When using equity-adjusted statistics, Namibia performs better in terms of U5MR (Figure B). Equity-adjusted statistics can highlight higher inequality in a country, something that a standard statistic (e.g. average U5MR) does not reveal.

Source: Vandemoortele and Delamonica (2010).

²⁹ U5MR reflects a host of social, economic and basic service-related factors, and in turn influences average life expectancy at birth. It also reflects: nutritional health and health knowledge of mothers; level of immunisation and oral rehydration therapy use; availability of maternal and health services (including antenatal care); income and food availability in the family; availability of clean water and safe sanitation; and overall safety of a child's environment. The UN Children's Fund (UNICEF) thus identifies U5MR as its single most important indicator of the state of a nation's children.

³⁰ Underweight prevalence among children under five is an internationally recognised public health indicator for monitoring nutritional status and health in populations. Child malnutrition is linked to poverty, low levels of education and poor access to health services. See www.spc.int/mdgs/MDGIs/indicator_4_definition.htm.

To measure the distribution of progress (i.e. distinct from the scale), the gap between the equity-adjusted and standard indicator is compared (in relative terms). A widening of this gap points to inequitable progress. In other words, poorer quintiles experienced fewer improvements than their wealthier counterparts.