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Social welfare aspects of development in a transition economy: application to Vietnam

Dzung The Nguyen
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SOCIAL WELFARE ASPECTS OF DEVELOPMENT IN A TRANSITION ECONOMY: APPLICATION TO VIETNAM

A thesis submitted in partial fulfilment of the
requirements for the award of the degree

DOCTOR OF PHILOSOPHY

from

UNIVERSITY OF WOLLONGONG

by

Dzung The Nguyen

BA & MA, Moscow Mining Institute

Department of Economics
University of Wollongong, Australia

2001

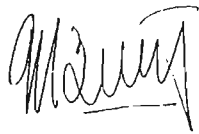
To Binh Thanh and Thanh Chau

AUTHOR'S CERTIFICATION

I, Dzung The Nguyen, certify that this thesis has not been submitted as a part of the requirements of another degree and that it is the product of my own independent research.

I certify that any help received in preparing this thesis and all sources used have been acknowledged in the thesis.

Signed

A handwritten signature in black ink, appearing to read 'Dzung The Nguyen', written in a cursive style.

11 July 2001

Abstract

Social welfare aspects of development in the transition from a centrally planned system to a market driven economy are of increasing theoretical and practical interest. However, this subject area is characterised by a number of important knowledge gaps concerning both essential concepts of social welfare and methodologies of its exploration, which are magnified by the fundamental changes introduced in the transition process. Specific features due to geography and history add to the complexity.

This thesis represents an attempt at reducing the gaps by developing an innovative conceptual framework and methodological tools for studying social welfare in a developing transition economy and applying them for the empirical analysis of the impact of Vietnam's transition on its welfare. The main contribution of this thesis is two-fold. In terms of methodological development, it introduces an innovative framework for analysis of social welfare during the transition and develops an intertemporal CGE model with rational expectations and an econometric model for the quantitative analysis of social welfare conditions and the social welfare system, respectively. In terms of empirical work, the thesis has applied qualitative and quantitative methodologies to analyse recent changes in Vietnam's social welfare conditions and social welfare systems.

The analysis has unveiled important insights into recent evolution of Vietnam's social welfare and its dynamics, which lead to a number of important conclusions. Firstly, it has been established quantitatively that Vietnam's transition has produced dramatic changes in social welfare in Vietnam. The chosen transition strategy is appropriate for the country's conditions. However, the transition and welfare policies are not always optimal. Within the chosen transition strategy, the country can obtain greater improvement in living standards by accelerating economic reforms, particularly in the areas of market liberalisation and ownership reform.

There is an urgent need to deepen the reform of the social welfare system, which is still lagging behind reform efforts in other areas and produces limited effects on household welfare. To address the social welfare problems facing Vietnam, such as continuing wide-spread poverty, growing inequality and insecurity, and limited effectiveness of the existing social welfare system, the reform measures should aim at improving targeting of public transfer schemes at the most needy such as the poor, the ethnic minorities, and vulnerable groups and introducing new more selective instruments such as unemployment benefits. Moreover, the analysis confirms the appropriateness of the newly developed methodology for analysis of social welfare under the transition.

Chapter 2 clarifies concepts of social welfare in a transition economy. Having made a clear distinction between social welfare conditions (SWC) and the social welfare system (SWS) – two interlinked aspects of social welfare, the thesis provides a comprehensive review of literature on existing research methodology, studies done on the subject, and identified a number of knowledge gaps to be addressed.

In chapter 3, the thesis introduces an innovative analytical framework, which views the transition as the expansion of people's choices of their occupation,

consumption, and investment and considers social welfare in terms of opulence, equality, and security. These allow studying the two aspects of social welfare in an integrated and interactive manner.

Based on the analytical framework, this chapter also develops theoretical basis for quantitative analysis of social welfare during the transition through modelling social welfare conditions and the social welfare system in a developing transition economy. The former model distinguishes itself by the combination of neoclassical intertemporal profit and utility optimisation of respective agents with various structuralist features of the developing transition economy, the introduction of HDI-like utility function and rational expectations, and the focus on welfare aspects. The novelty of the former is that it takes into account both public and private transfers as integrated and interacting elements of the social welfare system in a developing transition economy. A theoretical exploration of social welfare aspects of the transition on the models has unveiled that while in general the long-run impact of the transition on social welfare conditions is positive, it may result in short-term production contraction and worsening living standards, depending on the initial conditions and adopted transition policies. Concerning the social welfare system, public transfers may be of impure altruism and crowd out the private transfers. In general, public transfers and the SWS in general have a limited role and cannot replace a rapid and equitable growth in maintaining living standards during the transition.

Next, the study reports a qualitative analysis of changes in social welfare during Vietnam's transition. Chapter 4 focuses on the impact of the transition on social welfare conditions. The chapter reviews the transition process in Vietnam in comparison with other transition countries. It concludes that in contrast with almost other transition countries, Vietnam's transition has produced not only remarkable production gains and increasing macroeconomic stability, but also a rapid improvement of living standards. However, as predicted by the theoretical analysis, this is accompanied by growing, although still slightly, inequality and insecurity.

Chapter 5 offers a qualitative analysis of the response of Vietnam's social welfare system to the increasing need for social protection and assistance during the transition. The analysis points that Vietnam's social protection system is primarily designed for public employees and focuses on urban areas. The system is characterised by limited number of instruments, restricted coverage, benefits, and efficiency. However, there are innovative efforts to address the need of the most destitute, including working and non-working poor. Other pillars of Vietnam's social welfare system, such as labour and employment policies, education and health care, are also considered. In general, the effectiveness of the system still limited due to its slow response to the new economic environment, weak targeting, and lack of resources.

Chapter 6 is devoted to a quantitative analysis of social welfare in the transition. The thesis demonstrates how an intertemporal model of SWC with rational expectations and an econometric model of SWS can be built on the basis of the methodological development and applied for practical quantitative analysis of social welfare in a developing country such as Vietnam. The former represents the first intertemporal CGE model of Vietnam's transition economy. Six policy experiments with different transition and welfare scenarios provide additional insights into welfare dynamics of Vietnam's transition. In particular, they confirm that different transition policies tend to produce different effects on SWC and long-term impacts can be quite different from short-term ones. Next, the modelling has established quantitatively that

while the transition strategy chosen is relevant and has resulted in a remarkable improvement in SWC, they are not optimal. Fostering the reform process, particularly through accelerating market liberalisation and ownership reform, certainly leads to more impressive achievements. However, the transition policies are interlinked and need to be carried out coherently. Further, as improvement of SWC in the transition economy is positively linked with the development of the non-state sector, the latter is most critical for further enhancement of living standards and poverty reduction. Moreover, SWC is better off from more targeted social policies such as the establishment of unemployment benefits while “populist” policies such as lump-sum public transfers do not produce the effect.

The analysis of the econometric model of the social welfare system also has unveiled a number of important issues facing Vietnam's existing SWS. In support of the qualitative analysis in chapter 5, the quantitative analysis has established that the existing public transfer schemes produce statistically quite insignificant impacts on the welfare of Vietnamese households in general and recipient household in particular. Only poverty reduction assistance – a relatively recently emerging scheme – represents an exception by making statistically significant impacts on household welfare. Next, contrary to social security, social assistance and poverty reduction assistance are impure altruistic and, thus, require recipients' service in return. It has also confirmed that the social protection system is weakly targeted at the most needy, in particular the poor, those affected by disasters, and the vulnerable. Next, private transfers play an essential role in Vietnam's SWS but they are crowded out by public transfers, although slightly. More important, as private transfers deteriorate as a result of covariate risks and irregularities, such as natural disasters, there is a need to strengthen the formal SWS, particularly public transfer schemes. However, Vietnam SWS reform appears still lagging behind reform measures in other areas and this creates an additional constraint to the on-going reform process. The above also represents direction for future reform of Vietnam's SWS and social policies, in general.

The thesis is concluded by chapter 7, which summarises major findings and conclusions of the thesis. Moreover, it discusses existing limitations of the study and suggests future research in this subject.

The thesis utilises existing time series of macroeconomic data and cross-section data accumulated by both national and international agencies as well as the data collected under the two consecutive Government/World Bank/UNDP/SIDA Living Standards Measurement Surveys in 1992-93 and 1997-98. The data sets are complemented by other data collected from the Vietnamese Government's regular household surveys, census and sectoral surveys conducted by line ministries such as labour, education, health, agriculture and rural development, as well as data collected by international organizations such as the World Bank, IMF, UNDP, UNICEF, FAO ILO and EU and the NGO community in Vietnam.

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List of Abbreviations

Bill.	Billions
BSS	Basic social services
CEE(s)	Central and Eastern Europe or Central and Eastern European countries
CEMMA	Committee for Ethnic Minorities and Mountainous Areas (of Vietnam)
CGE	Computable general equilibrium
CIS(s)	Commonwealth of Independent States
CMEA	Council for Mutual Economic Assistance and Cooperation (also COMECON)
CPV	Communist Party of Vietnam
DCED	Development in communes faced with extreme difficulties
<i>Doi moi</i>	Vietnam's reform process (English translation: renovation)
EBRD	European Bank for Reconstruction and Development
ESCAP	United Nations Centre for Economic and Social Development in Asia and the Pacific
EU	European Union
FDI	Foreign direct investment
FSU	Former Soviet Union
GDP	Gross domestic product
GEMPACK	General Equilibrium Modelling Package
GNP	Gross National Product
GSO	General Statistical Office (of Vietnam)
GSP	Gross social product
HDI	Human development index
HEPR	Hunger eradication and poverty reduction
HH	Household
HPI	Human poverty index
HRD	Human resources development
ILO	International Labour Organisation
IMF	International Monetary Fund
IMR	Infant mortality rate
ISSA	International Social Security Association
LHS	Left hand side
MARD	Ministry of Agriculture and Rural Development (of Vietnam)
Mill.	Millions
MO Culture	Ministry of Culture and Communication (of Vietnam)
MOET	Ministry of Education and Training (of Vietnam)
MOH	Ministry of Health (of Vietnam)
MOI	Ministry of Interior (of Vietnam)
MOLISA	Ministry of Labour, Invalids and Social Affairs (of Vietnam)
MPI	Ministry of Planning and Investment (of Vietnam; successor of SPC)
NA	Data not available
NCPFP	National Committee for Population and Family Planning (of Vietnam)
NGO(s)	Non-government organisation(s)
NIC(s)	Newly industrialised country (countries)
NMP	National material product
NP(s)	National programme(s) (of Vietnam)
NTP(s)	National target programme(s) (of Vietnam)
OLS	Ordinary Least-Square estimation procedure
PDCED	Programme for socio-economic development in communes faced with extreme difficulties
PPC(s)	Provincial People's Committee(s) (in Vietnam)
RHS	Right hand side
SA	South Asian countries
SAM(s)	Social accounting matrixes
SBV	State Bank of Vietnam
SEA	Southeast Asian countries

SESAME(s)	System of economic and social accounting matrixes with extensions
SIDA	Sweden International Development Agency
SOE(s)	State-owned enterprises
SPC	State Planning Committee (of Vietnam)
SRV	Socialist Republic of Vietnam
SWC	Social welfare condition
SWF	Social welfare function
SWS	Social welfare system
TB	Tubercules
UNCED	United Nations Centre for Environment Development
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
VLSS	Vietnam's living standards survey
VLSS(s)	Vietnam's living standards survey(s)
VLSS1	Vietnam's living standards survey in 1993-94
VLSS2	Vietnam's living standards survey in 1997-98
VND or D	Vietnam's currency (US\$1=VND15,000 as of June 2001)