

ACTIVITY AND INCOME DIVERSIFICATION:
TRENDS, DETERMINANTS AND EFFECTS
ON POVERTY REDUCTION
THE CASE OF THE MEKONG RIVER DELTA

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ARMOEDEBESTRIJDING
DE SITUATIE IN DE MEKONG RIVIERDELTA

Le Tan Nghiem

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Acronyms

ASEAN	Association of Southeast Asian Nations
CPI	Consumer Price Index
CPV	The Communist Party of Vietnam
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CTU	Can Tho University
FAO	Food and Agriculture Organization
FE	Fixed Effects
GDP	Gross Domestic Product
GSO	General Statistical Office
HCMC	Ho Chi Minh City
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
LSMS	Living Standards Measurement Survey
MARD	Ministry of Agriculture and Rural Development
MDPA	Mekong Delta Poverty Analysis
MOLISA	Ministry of Labour, Invalids and Social Affairs
MRD	Mekong River Delta
NACA	Network of Aquaculture Centers in Asia-Pacific
OLS	Ordinary Least Square
PCE	Per Capita Expenditure
PPP	Purchasing Power Parity
PSU	Primary Sampling Unit
SRVN	The Socialist Republic of Vietnam
RE	Random Effects

RNFE	Rural Non-farm Economy
UN	United Nations
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
IFM	Institute of Fisheries-Management
RIA	Research Institute for Aquaculture No.1
RRD	Red River Delta
RRR	Relative Risk Ratio
VHLSS	Vietnam Household Living Standards Survey
VLSS	Vietnam Living Standards Survey
VND	Vietnamese Dong
WB	World Bank
WWF	World Wide Fund for Nature



Abstract

Until the 1980s, Vietnam was one of the poorest countries in the world, characterized by economic stagnation and widespread poverty. However, since the late 1980s, this picture has changed. Since 1986, Vietnam has experienced a sharp drop in the incidence of poverty which has fallen from 58 percent in 1993 to 15.5 percent in 2006 (GSO 2004b, 2007, 2008). The country, thanks to its high and stable economic growth, has already met the first Millennium Development Goal target of halving poverty. These dramatic achievements are largely ascribed to the success of various policy reforms implemented during the course of *Doi Moi* (“renovation”), a policy which was initiated by the 6th National Congress of the Communist Party of Vietnam (CPV) in 1986.

In addition to overall economic growth, this period has also witnessed notable changes in agriculture, the sector where Vietnam’s program of renovation was initiated. Agriculture was for a number of years even the motor of growth. However, over the years there has been a change in the structure of GDP with an increase in the share of industry and a decline in agriculture showing a clear transformation towards a more industrialized and diversified economy.

While a number of authors and empirical studies have examined the pattern of poverty reduction in Vietnam, relatively little attention has been paid to income diversification issues especially in rural areas. Little is known about how economic policy changes required by the renovation in Vietnam determined the livelihoods or income structure of rural households in the Mekong River Delta (MRD). This thesis provides an in-depth investigation of various aspects of economic activity and income diversification in these areas, with the support of a large database, with micro data from the LSMSs conducted in Vietnam over the period 1993-2006. The data is used to examine the patterns, the trends, the determinants, and the links between diversification and household welfare. The study explores the cross-section and panel elements of the data.

The empirical evidence that is presented in this thesis shows that over time there is a clear movement away from reliance on farming activities towards more non-farming activities. The empirical analysis further displays that while households endowed with more educated labour as well as simply more labour regardless of education are more likely to move to non-farming activities, across all household groups there is a clear movement in this direction. The patterns suggest that while household capacity does play a role in influencing movement out of farming the bulk of the change in time-allocation patterns may be attributed to changes in the price and incentive structure facing households.

In terms of the link between poverty reduction and diversification the analysis shows that some of the same factors that drive diversification (household labour quantity and quality) also drive increases in consumption while household access to land increases consumption but prevents movement out of farming activities. However, the main conclusion emerging from the analysis is that while household capacity does play a role in influencing outcomes, it is the range of institutional and policy changes that have implemented in Vietnam in the past more than twenty years that have provided the main impetus for the spectacular growth and poverty reduction experienced in the MRD.

*Diversificatie van activiteiten en inkomen:
trends, determinanten en effecten op armoedebestrijding.
De situatie in de Mekong rivierdelta*



Samenvatting

Tot aan '80'er jaren was Vietnam een van de armste landen van de wereld, gekarakteriseerd door economische stagnatie en wijdverspreide armoede. Vooral sinds 1986 is dit beeld veranderd, en is het percentage van de bevolking onder de armoedegrens in Vietnam van 58 procent in 1993 gedaald tot 15.5 procent in 2006 (GSO 2004b, 2007, 2008). Het land heeft, dank zij de sterke en stabiele economische groei de eerste Millennium Ontwikkelingsdoelstelling van het halveren van de armoede (sinds 1990) reeds gehaald. Deze dramatische successen worden vooral toegeschreven aan de verscheidene economische hervormingen die gedurende de *Doi Moi* (renovatie) politiek zijn doorgevoerd, sinds deze werden geïnitieerd door het 6^e Nationale Congres van de Communistische Partij van Vietnam (CPV) in 1986.

Naast algemene economische groei, laat deze periode ook de nodige veranderingen in de landbouwsector zien, de sector waarbinnen het programma van 'renovatie' werd gestart. De landbouwsector was voor een aantal jaren zelfs de drijvende kracht achter de groei van Vietnam. Niettemin, gedurende deze hele periode is de structuur van het Binnenlands Bruto Product (BBP) veranderd, met een toename van de bijdrage van de industrie en een afname in die van de landbouw, wat duidt op een transformatie richting een meer geïndustrialiseerde en gediversifieerde economie.

Terwijl een aantal auteurs en empirische studies het patroon van armoevermindering in Vietnam hebben bestudeerd, is er relatief weinig aandacht gegeven aan inkomensdiversificatie, in het bijzonder in plattelandsgebieden. Weinig is bekend over hoe de veranderingen in economische politiek in Vietnam bepalend waren voor het levensonderhoud en inkomstendiversificatie in de plattelandsgebieden van de Mekong rivierdelta (MRD). Dit proefschrift presenteert een gedetailleerd onderzoek naar verschillende aspecten van economische activiteit en inkomstendiversificatie

deze gebieden, met behulp van een grote database, met micro-gegevens van de LSMSs (*Living Standards Measurement Survey*) die zijn uitgevoerd in Vietnam gedurende de periode 1993-2006. De gegevens worden gebruikt om patronen, trends, bepalende factoren, en links tussen diversificatie en welvaart van de huishoudens te onderzoeken. Deze studie gebruikt daarbij zowel de cross-sectionele als wel panel-elementen van de data.

Het empirisch bewijsmateriaal dat in dit proefschrift wordt gepresenteerd laat zien dat met de tijd er een duidelijke beweging is weg van de afhankelijkheid van landbouw- naar meer niet-landbouw gerelateerde activiteiten. De empirische analyse laat verder zien dat terwijl huishoudens die meer opgeleide arbeid hebben of gewoon meer arbeid onafhankelijk van het opleidingsniveau, een grotere kans hebben om meer niet landbouw-activiteiten te gaan ondernemen, is er een duidelijke beweging binnen alle groepen van huishoudens in deze richting. Deze patronen suggereren dat terwijl de capaciteit van de huishoudens een rol speelt in het beïnvloeden van de beweging weg van de landbouw, het overgrote deel van de verandering in patronen van tijdsallocatie kan worden toegewezen aan de veranderingen in de prijs en incentive structuur waarmee de huishoudens worden geconfronteerd.

In termen van de verbinding tussen armoedevermindering en diversificatie laat de analyse zien dat een aantal van dezelfde factoren die diversificatie stimuleren (zoals de hoeveelheid en de kwaliteit van arbeid) ook toename van consumptie bevorderen, terwijl toegang tot land de consumptie van de huishoudens doet toenemen, maar een beweging weg van de landbouw voorkomt. Niettemin, de belangrijkste conclusie die uit de analyse naar voren komt is dat het scala van veranderingen in instituties en economische politiek dat in de afgelopen meer dan twintig jaar zijn doorgevoerd de voornaamste oorzaak zijn van spectaculaire groei en armoedevermindering in de MRD.