Trade Liberalisation and Poverty Dynamics in Vietnam

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Abstract

This paper explores the poverty impact of Vietnam’s trade liberalisation over the 1990s and asks how well they could have been predicted from prior data. We identify policy changes and their major effects on trade and prices. We then seek the effects of these changes in a panel comprising 4,302 households observed in 1993 and 1998. Using a multinomial logit model, we find evidence that trade liberalisation influenced household poverty status and that considering trade effects would help to identify winners and losers a priori. We also find evidence that trade liberalisation reduced poverty substantially over the period 1993-1998.

• JEL classification: F13, F14, I32, O15, O24
• Keywords: Trade policy, Poverty, Vietnam

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I. Introduction

The link between trade liberalisation and poverty is one of the most contentious areas of debate within the development community. Both sides of the debate, however, rely more on theory, rhetoric and anecdote than on solid empirical research. This paper starts to redress the balance through a study of the recent trade liberalisation in Vietnam using the conceptual framework developed by Winters (2000, 2002). In addition to the long-run effects operating through economic growth, Winters considers the static effects of trade shocks on households, directly via product and factor markets, and indirectly through changes in government revenues and social spending. This paper explores some aspects of the poverty effects of Vietnam’s trade liberalisation over the 1990s and asks, in particular, how well the framework would have performed if it had been applied to this case at the outset.

Vietnam is an ideal candidate for such a test in the sense that it has two surveys of substantially the same households in 1992-1993 and 1997-1998 - the Vietnam Living Standards Surveys.1 Hence throughout the paper we focus on this five year period, and because five years is too short a period to assess the impact of openness on economic growth,2 on the static effects felt via prices, wages and employment. In another sense, however, Vietnam is less than ideal. Since the start of the doi moi reforms in 1986 the Vietnamese economy has been undergoing a more or less continuous transition from a centrally planned socialist to a market-oriented economy. Although this process has, at times, been halting and confused and is certainly not yet complete (see van Donge, White and Nghia (1999)), it seems to have had quite marked effects on the economy. Thus a major challenge for research of this kind is to identify the international trade reforms that have actually occurred, separate them from other shocks and trace their transmission through to poor households.

1These surveys were carried out by the General Statistical Office (GSO) and the Ministry of Planning and Investment, with financial assistance from the United Nations Development Programme (UNDP) and the Swedish International Development Agency (SIDA) and technical assistance from the World Bank.

2Given that it takes time for trade liberalisation to have an effect on the economy, a longer span of data, for instance between the early 1990s and early 2000s, must also be examined in future research. It should be noted, however, that the Vietnam Household Living Standard Survey (VHLSS) 2002 did not revisit the households that were surveyed both in 1992-93 and 1997-98, so the panel approach we adopt here would no be feasible for that period.