

POVERTY AND INEQUALITIES IN MIDDLE-INCOME SOUTHEAST ASIA

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Abstract

This paper outlines a research agenda related to poverty in lower middle income Southeast Asia, notably Indonesia and Viet Nam.

The paper briefly reprises the changes in global poverty towards lower middle-income countries (LMICs). It then reviews, from a historical comparative perspective, poverty reduction in two new LMICs in Southeast Asia - Indonesia and Viet Nam - and describes the “state-of-the art” in terms of poverty and inequality analysis in these two countries.

It also outlines research agenda focusing on the long-term evolution of poverty and inequalities, the changing composition of poverty over time, and the role of inequalities in the reproduction of persistent poverty.

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EXECUTIVE SUMMARY

Most of the world's extreme and moderate income poor, and most of the world's multi-dimensional poor, now live in lower middle-income countries (LMICs), and in countries such as Indonesia and Viet Nam which have relatively recently transitioned from low-income to middle-income status (although Indonesia had previously attained LMIC status in the 1990s). Such patterns matter beyond the country thresholds set by the World Bank, because they reflect not just a pattern of rising income by exchange rate GNI per capita, but also rising PPP income. Further, although the thresholds do not mean a sudden change when a per capita income line is crossed, the international system does treat countries differently. Indeed, the changing distribution of global poverty towards a concentration in LMICs presents a set of questions because (a) it challenges orthodox views that most of the world's extreme poor, or moderate poor, or multi-dimensional poor, live in the world's poorest countries by per capita income (meaning low income countries); (b) it suggests that substantial "pockets" of extreme and moderate poverty can persist at higher levels of average per capita income; (c) it also suggests that remaining poverty is increasingly about socio-economic inequalities such as spatial and group/horizontal characteristics and – potentially - a structural outcome of specific patterns of growth and distribution and their interaction with sub-national/spatial inequalities and horizontal/group inequalities. A better understanding of poverty in LMICs thus has wider significance.

Underlying these points are deeper questions relating to the transformation from low to middle income. During periods of rapid economic transformation, as countries move from low-income towards middle-income, average incomes rise and the incidence of extreme poverty generally declines. However, moderate poverty and vulnerability to poverty may continue for substantial proportions of the population, and ethnic, spatial and other inequalities and disparities may arise, as well as the marginalization of certain groups. If the reduction of extreme poverty is accompanied by rising inequality this may impede future and more extensive poverty reduction and shared prosperity. Furthermore, inequalities may play a particular role in the reproduction of chronic poverty.

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1. INTRODUCTION

Four countries in Southeast Asia – Indonesia, Thailand, Malaysia and Viet Nam –have experienced transformation from low to middle-income status via sustained growth since 1950. Precisely, this means an annual average growth rate of 7% a year or more for 25 years or longer; at which speed the economy doubles in size every ten years (World Bank, 2008, p. 20).

These 4 countries have achieved this at varying speeds over the past 30 years or so, and from various starting points. In fact, Booth (1999) has suggested that initial conditions were crucial in differentiating the (older) East Asia “miracle” from the (more recent) Southeast Asia transformation. These 4 Southeast Asian countries have experienced drastic increases in average per capita income, and considerable reduction in extreme poverty (here measured as \$1.25 poverty) in the stages of transformation to date; and Malaysia has virtually eradicated extreme poverty. The 4 countries have all achieved Middle-income country (MIC) status in World Bank classification. Two have achieved the average GNI per capita required to attain Lower MIC status recently (Indonesia and Viet Nam, although the former attained MIC status and dropped back in the 1990s), and two are now Upper MICs (Thailand and Malaysia).

Underlying these points are deeper questions relating to the transformation of countries from low to middle-income. During periods of rapid economic transformation, as countries move from low-income towards middle-income, average incomes rise and the incidence of extreme poverty generally declines. However, moderate poverty and vulnerability to poverty may continue for substantial proportions of the population, and ethnic, spatial and other inequalities and disparities may rise, as well as the marginalization of certain groups. If the reduction of extreme poverty is accompanied by rising inequality, this may impede future and more extensive poverty reduction and shared prosperity. Furthermore, inequalities may play a particular role in the reproduction of chronic poverty.

This paper outlines a research agenda related to poverty in lower middle income Southeast Asia, notably Indonesia and Viet Nam. The paper briefly reprises the changes in global poverty towards lower middle-income countries (LMICs). It then reviews, from a historical comparative perspective, poverty reduction in two new LMICs in Southeast Asia - Indonesia and Viet Nam - and describes the “state-of-the art” in terms of poverty and inequality analysis in these two countries. It also outlines research agenda focusing on the long-term evolution of poverty and inequalities, the changing composition of poverty over time, and the role of inequalities in the reproduction of persistent poverty.

2. POVERTY IN (LOWER) MIDDLE-INCOME COUNTRIES

In 1990 over 90% of the world's extreme poor (by the \$1.25/day poverty line) lived in countries classified as "low-income countries" (LICs) by the World Bank. In 2007 less than 30% of the world's extreme poor lived in LICs, and more than 70% of the world's income poor lived in "middle-income countries" (MICs) (Kanbur & Sumner, 2011; Sumner, 2010; 2011). Similar patterns are evident in other aspects of human development, notably in the global distribution of malnutrition (see data in Sumner, 2010), multi-dimensional poverty (see Alkire *et al.*, 2011; Sumner, 2010), and the global disease and mortality burden (see Glassman *et al.*, 2011).

Over the same period, the incidence of extreme poverty fell from 42% to 25% (1990 to 2005). However, when one excludes China, the total number of people living under \$1.25 has barely changed (and risen slightly by the \$2 poverty line) (Chen & Ravallion, 2008). Furthermore, the estimates of Moss and Leo (2011), based on IMF WEO data projections, suggest the number of countries classified as LICs will continue to drastically fall. Chandy and Gertz (2011, p. 9), Koch (2011) and Alkire *et al.*, (2011), all of whom have corroborated the LIC-MIC poverty distribution outlined above, have argued that the high concentration of the global poor in MICs is likely to continue.²

These changes in global poverty raise various methodological questions, not least about the thresholds themselves (discussed in depth in Sumner, 2012). One can say that most of the world's poor, by \$1.25 or \$2 poverty lines, live in countries where average income is considerably higher than the LIC-MIC threshold; suggesting the changes reflect real changes in average income and not just problems with the country thresholds used.

Clearly, there is much more to investigate here in terms of explanatory factors (see for in-depth discussion, Sumner, 2012). Notably, the contribution of population growth rates in the poorest expenditure groups and what happened in the channels whereby economic growth can lead to poverty reduction (eg changes in: wage employment, real wages, self-employment, and productivity in self employment and the output elasticity of demand for labour). At a minimum, the fact that poverty persists at much higher levels of average per capita income raises questions about the types of economic growth that lead some countries to reduce the number of people in extreme poverty, moderate poverty, and vulnerability to poverty and other countries not to.

In Southeast Asia, Indonesia and Viet Nam are two countries which have relatively recently attained MIC status (although Indonesia had previously attained LMIC status pre-Asian Financial Crisis), and have impressive records on economic development and the reduction of extreme poverty to date. In the following sections we review, from a historical comparative perspective, poverty reduction in Indonesia and Viet Nam. In Section 4 we describe the "state-of-the art" in terms of contemporary research on poverty and inequality analysis in Indonesia and Viet Nam, and proceed to outline a research agenda.

² Ravallion (2011) has argued that the assumptions of Chandy and Gertz (2011) concerning static inequality may overstate the extent of poverty reduction to 2015 (and if so, this will likely mean a higher proportion of world poverty in MICs).

3. LOWER MIDDLE-INCOME SOUTHEAST ASIA IN COMPARATIVE PERSPECTIVE: INDONESIA AND VIET NAM

3a. An international comparative perspective on economic development: Indonesia and Viet Nam

Indonesia and Viet Nam have both experienced drastic improvements in average incomes and various indicators of economic development. Average incomes in PPP terms doubled in Indonesia between 1990 and 2009, and tripled in Viet Nam. In 2009 the average PPP income/day was \$10 per capita in Indonesia and \$8 per capita in Viet Nam (see table 1). In comparison, the group average for the world's LICs in 2009 was about the same as in 1990 (when both Indonesia and Viet Nam were LICs). Further, various other indicators of economic development show major improvements; including falling ODA/GNI and ODA/Gross capital formation, declines in the contribution of agriculture to GDP, and rises in the level of urbanization. However, although Viet Nam's reliance on primary exports was low in 2009, Indonesia's reliance on ores and metals was higher.

When Indonesia is compared to the averages of the LMIC and the UMIC groups, including the LMICs minus India (see table 2), it is much closer to the UMIC group average in terms of ODA and urbanization, but closer to the LMIC group in terms of the contribution of agriculture to GDP and labor force employment, and primary export dependency. In contrast, Viet Nam lies between the LIC and LMIC group averages.

Finally, one can compare income per capita in Indonesia, Viet Nam and the country groups as a percentage of OECD high-income countries (HICs). In PPP terms, income per capita in Indonesia in 2009 was at about 11% of the HIC OECD group average, and in Viet Nam at 8%.

Table 1. Economic Indicators, 1990 vs. 2009 (or nearest available year)

| | LICs (population weighted, 1990 and 2009 groups) | | Indonesia | | Viet Nam | |
|---|---|---------|-----------|--------|----------|--------|
| | 1990 | 2009 | 1990 | 2009 | 1990 | 2009 |
| GNI per capita/year (Atlas, current US\$) | 364.6 | 456.4 | 600.0 | 2160.0 | 130.0 | 1030.0 |
| GNI per capita per day (Atlas, current US\$) | 1.0 | 1.3 | 1.6 | 5.9 | 0.4 | 2.8 |
| GNI per capita/year (PPP, current int'l \$) | 875.1 | 1,129.5 | 1380.0 | 3940.0 | 610.0 | 2870.0 |
| GNI per capita per day (PPP, current int'l \$) | 2.4 | 3.1 | 3.8 | 10.8 | 1.7 | 7.9 |
| GDP per capita/year, (PPP, constant 2005 international \$) | 1,223.0 | 1,028.7 | 2008.4 | 3694.4 | 904.9 | 2720.7 |
| GDP per capita per day, (PPP, constant 2005 international \$) | 3.4 | 2.9 | 5.5 | 10.1 | 2.5 | 7.5 |
| | | | | | | |
| Net ODA received (% of GNI) | 3.1 | 12.6 | 1.6 | 0.2 | 3.0 | 4.0 |
| Net ODA received (% of gross capital formation) | 17.3 | 53.1 | 4.9 | 0.6 | 22.2 | 10.1 |
| GDP in agriculture (%) | 29.6 | 30.8 | 19.4 | 15.3 | 38.7 | 20.9 |
| Employment in agriculture (% of total | 55.6 | - | 55.9 | 39.7 | 70.0 | 51.7 |

| | | | | | | |
|---|------|------|------|------|---------------|------|
| employment) | | | | | (1996) | |
| Urbanisation (% population) | 26.4 | 27.9 | 30.6 | 52.6 | 20.3 | 28.3 |
| Agricultural raw materials exports as % merchandise exports | 6.1 | 9.7 | 5.0 | 4.5 | 3.0 (1997) | 2.4 |
| Ores and metal exports as % merchandise exports | 3.7 | 7.4 | 4.4 | 9.2 | 0.5 (1997) | 0.7 |

Sources: Data processed from WDI (2011).

Table 2. Economic indicators, 2009, by country groupings, popn weighted

| | Indonesia | Viet Nam | LICs | LMICs | LMICs minus India | UMICs |
|---|------------------|-----------------|------|-------|--------------------------|-------|
| Net ODA received (% of GNI) | 0.2 | 4.0 | 12.6 | 1.0 | 1.8 | 0.1 |
| Net ODA received (% of gross capital formation) | 0.6 | 10.1 | 53.1 | 3.5 | 6.3 | 0.4 |
| GDP in agriculture (%) | 15.3 | 20.9 | 30.8 | 17.3 | 16.8 | 8.8 |
| Employment in agriculture (% of total employment) | 39.7 | 51.7 | -- | 11.8 | 30.4 | 17.9 |
| Urbanisation (% population) | 52.6 | 28.3 | 27.9 | 39.2 | 47.6 | 56.8 |
| Agricultural raw materials exports as % merchandise exports | 4.5 | 2.4 | 9.7 | 1.9 | 2.6 | 1.1 |
| Ores and metal exports as % merchandise exports | 9.2 | 0.7 | 7.4 | 5.9 | 5.5 | 4.3 |

Sources: Data processed from WDI (2011).

Table 3. Income per capita, 2009, by country groupings, popn weighted as % OECD HIC (OECD HIC = 100%)

| | Indonesia | Viet Nam | LICs | LMICs | LMICs minus India | UMICs |
|--|------------------|-----------------|------|-------|--------------------------|-------|
| GNI per capita (Atlas, current US\$) | 5.5 | 2.6 | 1.2 | 3.7 | 4.3 | 13.3 |
| GNI per capita (PPP, current int'l \$) | 10.7 | 7.8 | 3.1 | 9.1 | 9.2 | 25.1 |
| GDP per capita, PPP (constant 2005 international \$) | 11.3 | 8.3 | 3.2 | 9.5 | 9.8 | 24.9 |

Source: Data processed from WDI (2011).

3b. An international comparative perspective on poverty and inequality: Indonesia and Viet Nam

International comparisons for changes in poverty and inequality in Indonesia and Viet Nam, are subject to the usual caveats regarding PPPs (see Deaton, 2011 for detailed discussion). Here we make use of the two international poverty lines of \$1.25 and \$2 (See table 4-8). In Indonesia between 1990 and 2009, \$1.25 poverty fell from 54% to 19%, or from 96m people to 43m people; and \$2 poverty fell from 85% to 56%, or from 150m people to 130m people. In Viet Nam between 1993 and 2008, \$1.25 poverty fell from 64% to 13%, or from 42m people to 11m people; and \$2 poverty fell from 86% to 39%, or from 57 million people to 34 million people.

These data show that poverty rates in Indonesia and Viet Nam are considerably lower than the average for the LIC group, with poverty levels in both countries below the average for the LMIC group (and LMICs minus India) in terms of \$1.25 poverty.

In terms of inequality, the Gini has worsened in both Viet Nam and Indonesia, and the share of GNI to the poorest 40% and to the middle five deciles has declined. The richest decile's share of GNI has risen. Over the same time period, the percentage of the population and number of people in the \$2-\$4 and \$4-\$10 ranges have increased substantially, but there has been little change in the proportion or numbers of people above \$10/day. However, inequality in Indonesia and Viet Nam compares favourably to LIC, LMIC and UMIC group averages.

A final issue is that of spatial inequalities within MICs, and the question of whether the world's poor live in poor provinces within MICs. Sub-national data shows that many provinces in Indonesia and Viet Nam are below or close to the LIC-MIC threshold for per capita income.

Table 4. Estimates of \$1.25 and \$2 poverty in Indonesia and Viet Nam, 1990 and 2009, (or nearest year)

| | 1990 | 2009 | 1990 | 2009 |
|---------------------------|--------|------|-----------------|-------|
| | % Poor | | Poor (millions) | |
| \$1.25 | | | | |
| Indonesia (1990 and 2009) | 54.3 | 18.7 | 96.3 | 43.1 |
| Viet Nam (1993 and 2008) | 63.7 | 13.1 | 42.2 | 11.4 |
| \$2 | | | | |
| Indonesia (1990 and 2009) | 84.6 | 56.3 | 150.1 | 129.5 |
| Viet Nam (1993 and 2008) | 85.7 | 38.5 | 56.7 | 33.6 |

Source: Data processed from PovCal (2011) and population data from WDI (2011).

Table 5. Estimates of poverty in Indonesia and Viet Nam vs country group averages, 2009 (or nearest year)

| | Indonesia | Viet Nam (2008) | LICs | LMICs | LMICs minus India | UMICs |
|--|-----------|-----------------|------|-------|-------------------|-------|
| Poverty headcount (% population), US\$1.25 | 18.7 | 13.1 | 44.0 | 30.6 | 23.1 | 2.1 |
| Poverty headcount (%) | 56.3 | 38.5 | 72.5 | 59.7 | 47.0 | 14.2 |

| | | | | | | |
|-------------------|--|--|--|--|--|--|
| population) US\$2 | | | | | | |
|-------------------|--|--|--|--|--|--|

Sources: Data processed from PovCal (2011) and population data from WDI (2011). Note: Indonesia and Viet Nam data for nearest available years; Group averages are population weighted and adjusted base years by linear extrapolation based on last two data points (see Sumner, 2012).

Table 6. Estimates of inequality: Gini, 1990 and 2009

| | PovCal (adjusted estimates) | | WDI |
|-----------|-----------------------------|------|------|
| | 1990 | 2009 | 2009 |
| Indonesia | 29.2 | 33.5 | 36.7 |
| Viet Nam | 35.8 | 37.5 | 37.8 |

Source: Data processed from PovCal (2011) as weighted average of rural Gini and urban Gini and adjusted base years via linear extrapolation based on last two data points.

Table 7. Estimates of inequality: Expenditure data by decile, % GNI, 1990 and 2009 (nearest available year)

| | Decile 1-4 (poorest) | | Decile 5-9 | | Decile 10 (Richest) | |
|-----------|----------------------|------|------------|------|---------------------|------|
| | 1990 | 2009 | 1990 | 2009 | 1990 | 2009 |
| Indonesia | 22.6 | 20.3 | 53.1 | 52.2 | 24.3 | 27.5 |
| Viet Nam | 19.2 | 18.3 | 51.8 | 51.5 | 29.0 | 30.2 |

Source: Data processed from PovCal (2011).

Table 8. Estimates of population by expenditure group (Daily per capita expenditure, PPP, constant 2005 international \$), 1990 and 2009 (nearest available year)

| | Less than \$2 | | \$2-\$4 | | \$4-\$10 | | \$10-\$20 | |
|--------------|---------------|-------|---------|------|----------|------|-----------|------|
| | 1990 | 2009 | 1990 | 2009 | 1990 | 2009 | 1990 | 2009 |
| % population | | | | | | | | |
| Indonesia | 84.6 | 56.3 | 13.0 | 31.6 | 2.3 | 10.8 | 0.0 | 1.1 |
| Viet Nam | 85.7 | 38.5 | 11.4 | 39.9 | 2.7 | 18.7 | 0.0 | 2.4 |
| Millions | | | | | | | | |
| Indonesia | 150.1 | 129.5 | 23.1 | 72.7 | 4.1 | 24.8 | 0.0 | 2.5 |
| Viet Nam | 56.7 | 33.6 | 7.5 | 34.8 | 1.8 | 16.3 | 0.0 | 2.1 |

Source: Data processed from PovCal (2011) and population data from WDI (2011).

Table 9. Estimates of inequality: Indonesia and Viet Nam vs. country group averages, 2009

| | Indonesia | Viet Nam | LICs | LMICs | LMICs minus India | UMICs |
|---------------------------|-----------|----------|------|-------|-------------------|-------|
| Gini | 36.7 | 37.8 | 38.4 | 37.8 | 38.9 | 43.8 |
| Richest decile (D10) | 27.5 | 30.2 | 33.2 | 32.3 | 32.4 | 34.5 |
| Middle 5 deciles (D9-D5) | 52.2 | 51.5 | 49.0 | 51.4 | 51.4 | 50.2 |
| Poorest 4 deciles (D1-D4) | 20.3 | 18.3 | 17.8 | 16.4 | 16.3 | 15.4 |

Source: Data processed from PovCal (2011) and WDI (2011). Note: Indonesia and Viet Nam data for nearest available years; Group averages are population weighted and adjusted base years by linear extrapolation based on last two data points.

4. THE ‘STATE OF THE ART’: CONTEMPORARY RESEARCH ON POVERTY AND INEQUALITIES IN INDONESIA AND VIET NAM

Indonesia and Viet Nam both have substantial, long-run secondary datasets from national statistical offices. In Indonesia, these include the national socio-economic survey, the Susenas (available every 3 years from 1984 to 2002 and every year from 2002 to 2010), the labor force survey, Sakernas (annual data from 1986 to 2005), and the Indonesian Family Life Survey (available for 1993, 1996, 2000, and 2007). In Viet Nam, these include the national household survey (conducted in 1993, 1998, 2002, 2004, 2006, 2008 and 2010), the Labor Force Surveys (available for 2007 and 2009), enterprise censuses (available for 2006, 2007 and 2009); as well as other relevant surveys, such as an inequality perceptions survey expected to be carried out by CAF-VASS and the World Bank in the first half of 2012.

4a. Indonesia

Since the Asian Financial Crisis (AFC) of 1997/8 there has been considerably more studies on poverty-related issues in Indonesia. Initially, these studies focused on how the AFC impacted poverty (see for example, Frankenberg *et al.*, 1999; Levinsohn *et al.*, 1999, Skoufias *et al.*, 2000; Sumner, 2002). A debate raged between those who promoted a catastrophic scenario and those who argued that the increase in poverty was not that severe (Poppele *et al.*, 1999; Sutanto, 1999). This debate emerged mostly due to the unavailability of reliable and up-to-date data to assess the impact of AFC on poverty, resulting in reliance on conjecture and simulations to predict the poverty impact of AFC. As later data became available, it became clear that the impact of AFC on poverty was very large, but nothing near the catastrophic scenario (Suryahadi *et al.*, 2003). Later, the issues covered in studies of poverty in Indonesia became more varied, but in general they can be grouped into two broad and overlapping streams. The first includes those which seek to understand the nature and profile of poverty in Indonesia. The second include those which focus on the government’s poverty reduction efforts.

The first stream of studies focuses on poverty measurement, the national poverty profile, and the vulnerability of certain groups to poverty (Asra, 1999; Chesher, 1998; Pritchett *et al.*, 2000). One important finding from the studies on poverty measurement is that there are a large proportion of people who live around the poverty line, making the poverty rate in Indonesia very sensitive to slight changes in the poverty line and as a consequence, whenever a shock occurs in the economy, there is always a significant impact on poverty.³ Relatedly, studies on vulnerability have found that a large proportion of the Indonesian population are vulnerable to falling into poverty (Suryahadi *et al.*, 2011). Notwithstanding the progress in reducing poverty, there is evidence of increasing inequality in Indonesia during the post-AFC period (World Bank, 2011). Studies on the poverty profile of Indonesia indicate that poverty in Indonesia is largely a rural and agricultural phenomenon. However, there is evidence of growing urbanization of poverty

³ Fortunately research suggests Indonesia avoided significant growth and poverty impacts from the global economic crisis of 2008/9 (McCulloch & Grover, 2010).

over time, implying that the issue of urban poverty and inequality will become more prominent in the future.

The second stream of studies exploits the proliferation of governmental poverty reduction programs following the AFC (see for example, Suryahadi *et al.*, 2010). Before the onset of the AFC in mid 1997, there is little doubt that Indonesia had an extended period of high economic growth. However, there is still controversy over whether the benefits of this growth were equally distributed among the whole population, or were largely accrued only by the politically and economically well-connected minority. While popular perceptions strongly support the latter (Utomo, 2004), the relatively abundant studies on inequality in Indonesia have generally failed to find quantitative evidence to support this popular belief; and have found, in fact, that Indonesia's income inequality has remained relatively low at least compared to other countries progressing from low to middle income (see earlier discussion). The AFC itself brought inequality in Indonesia to its lowest level, although it has been increasing during the post-AFC period (Suryadarma *et al.*, 2010).

There is not much research regarding inequality in Indonesia that looks beyond income and consumption. UNDP provides overall health and education indicators by provinces and, to a lesser extent, by gender (UNDP, 2004).

By any indicators the highest inequality persists between urban and rural areas (Suryadarma *et al.* 2006). On the other hand, inequality between ethnicities does not reveal any systematic pattern (Suryadarma *et al.*, 2006). Similarly, inequality between the western and eastern regions and the islands is not systematic, and is not as large as the urban-rural disparities. However, while in the pre-AFC period inequality had been relatively low, inequality is now increasing as noted previously. The consequences of this phenomenon have not yet received much attention from either analysts or policy makers.

4b. Viet Nam

The establishment of regular household surveys in 1993 has resulted in a growing number of studies on poverty and inequality in Viet Nam over the past 15 years. The first set of papers focus on constructing a country poverty profile (World Bank, 1999; 2003; VASS, 2007; 2011). The biggest change in the poverty profile over the past two decades is that poverty has become increasingly concentrated among ethnic minorities. The percentage of households with heads coming from ethnic minorities rose considerably between 1993 and 2008, from 17.7% to 40.7% (VASS, 2011). If this trend continues, ethnic minorities will make up the majority of the poor in Viet Nam within the foreseeable future. Furthermore, the overall distribution of welfare (measured in per-capita expenditure terms) has also changed quite considerably over the last two decades: it has flattened and has becoming more skewed to the right due to rapid improvements for many households. However, the distribution of welfare for ethnic minorities has changed much more slowly, and still remains highly concentrated around the poverty line.

The second set of papers analyzes particular groups of the population, such as rural and urban dwellers and ethnic minorities. A number of studies have attempted to analyze causes of ethnic minority poverty reduction and its weak linkage to economic growth (Baulch *et al.*, 2004; 2010): Half of the large and growing welfare gap between the Kinh

majority and ethnic minorities can be attributed to large differences in endowments. The remaining half of welfare gap is attributed to differences in returns to these endowments.

With regards to rural poverty, a number of studies find that low income rural populations are vulnerable to different types of shocks, such as animal diseases and trade policy limiting rice export for food security purposes. These factors may have strong distributional effects in rural areas (Kompas *et al.*, 2009; 2010). Urban poverty figures conceal many acute problems related to other dimensions of deprivation; such as access to the formal social security system, working and housing conditions, pollution, and personal safety (Nguyen & Le, 2010; VASS, 2010).

Issues related to inequality are analyzed in some studies, with a mixed picture emerging (Hoang *et al.*, 2009; VASS, 2008; World Bank, 2012; Vu & Nguyen, 2011). With regards to inequality in outcomes, while relative measures such as consumption-based Gini ratios show only a modest increase over the past two decades, the gap between the richest and poorest quintiles has widened quite substantially. With regards to inequality in opportunities, standard measures such as enrolment rates in the education sector or access to health care services show only modest increases in disparities across different population groups. However, when the quality of education is taken into account, which is measured by performance in standardized tests (although data of this type are rare and can only be obtained from time to time), there are quite considerable differences across different groups; particularly between urban and rural dwellers and between the Kinh majority and ethnic minorities. One dominant idea about inequality has been that economic liberalization reforms and strong economic growth had no detrimental distributional effect (Benjamin & Brandt, 2002). However, these assumptions have been questioned over the previous decade (Beard & Agrawal, 2002; Bonschab & Klump, 2007; World Bank, 2002; UNDP, 2004; VASS, 2007; HVP 2008).

The World Bank's Country Gender Assessment 2006 noted that Viet Nam had been successful in reducing gender disparities over the past two decades, while emphasizing four areas in need of further attention.⁴ First, ethnic minority women lag behind both ethnic minority men and Kinh/Hoa women in access to healthcare and education services as well as economic opportunities. Second, there remains persistent gender stereotyping in textbooks which continues to perpetuate gender inequality. Third, greater recognition is needed with respect to the increasingly important role played by women in the agriculture sector, manifested firstly in the large number of women involved. Fourth, progress in increasing women's decision-making power has been slow and inconsistent.

⁴ See also Pham, H. T. and Reilly (2007), and Justino and Litchfield (2003).

5. CONCLUSIONS AND A RESEARCH AGENDA

5a. Problematisation

Most of the world's \$1.25 and \$2 income poor (and multi-dimensional poor) now live in lower middle-income countries (LMICs), and in countries such as Indonesia and Viet Nam which have relatively recently transitioned from low-income to middle-income status (although Indonesia had previously attained LMIC status in the 1990s).

Such patterns matter beyond the thresholds of LIC/MIC set by the World Bank, because they reflect not just a pattern of rising income by exchange rate GNI per capita, but also rising PPP income. Further, although the thresholds do not mean a sudden change within countries when a line is crossed in per capita income, the international system does treat countries differently (for example in terms of IDA eligibility and conditions).

Indeed, the changing distribution of global poverty towards a concentration in LMICs presents a set of questions because (a) it challenges orthodox views that most of the world's extreme poor, or moderate poor, or multi-dimensional poor, live in the world's poorest countries by per capita income (meaning low income countries); (b) it suggests that substantial "pockets" of poverty can persist at higher levels of average per capita income; (c) it also suggests that remaining poverty is increasingly about national distribution questions and socio-economic inequalities across spatial, group/horizontal and gender characteristics, which requires further study. A better understanding of poverty in LMICs thus has wider significance.

5b. Research questions

A detailed study of poverty in two lower middle income countries – Indonesia and Viet Nam – would elucidate the nature of poverty in LMICs, and move forward the research and debate on the extent, nature and dynamics of poverty in middle-income countries. Three research areas are:

- Discerning long-run trends: What has happened to different types of poverty and inequality since the early 1990s? Are indicators moving in different directions?

This would entail study of long-run trends, from the early 1990s onwards, in different types of extreme and moderate poverty (income/expenditure and social indicators); and vulnerability to or security from poverty. This would involve, firstly, looking at poverty and different types of economic and social inequalities (spatial, group/horizontal and gender) over time, in order to discern possible contradictory directions of different types of poverty and inequalities. And, secondly, looking at what is happening to rates of poverty reduction over time vis-à-vis growth (for example, is the growth elasticity of poverty changing?).

- The composition of the chronic (persistent) poor over time: Who are the poor groups and how has this changed since the 1990s? (by gender, ethnicity, region, chronic/transient; i.e. who is "left behind"?)

This would entail study of long-run trends, from the early 1990s onwards, in the composition of extreme and moderate poverty (income/expenditure and social indicators) and vulnerability to, or security from poverty over time in terms of location, ethnicity and other social groups.

- The role of inequalities in the reproduction of chronic poverty: What role do social and economic inequalities play in the reproduction of chronic poverty?

This would entail study of long-run trends, from the early 1990s onwards, in the composition of chronic and transient poverty over time by location, ethnicity and other social groups in order to analyse the role of inequalities in the reproduction of chronic poverty.

The contribution such research would make at the next stage is to generate new knowledge to better understand the relationship between various inequalities and extreme and moderate poverty (income/expenditure and social indicators), and vulnerability to, or security from, poverty.

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