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Language, Mixed Communes, and Infrastructure: Sources of Inequality and Ethnic Minorities in Vietnam

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Summary. — This paper re-examines the sources of inequality in Vietnam, a transitional economy with large reductions in poverty from recent and dramatic economic growth, but vastly unequal gains across ethnic groups. Using a decomposition approach to disentangle factor endowments and returns by ethnic group, we draw four key conclusions. First, removing language barriers would significantly reduce inequality among ethnic groups, narrowing the ethnic gap, and especially so through enhancing the gains earned by minorities from education. Second, variations in returns to education exist in favor of the majority in mixed communes, suggesting that either the special needs of minority children have not been adequately addressed in the classroom, or unequal treatment in favor of the majority exists in the labor market. Third, in contrast to recent literature, there is no difference in the benefits drawn from enhanced infrastructure at the commune level across ethnic groups. Finally, we find little evidence to support the established views that the ethnic gap is attributed largely to differences in the returns to endowments. Overall, our research highlights the importance of considering language barriers and the availability of infrastructure for ethnic inequality.
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Key words — ethnic inequality, language, infrastructure, education, rural development, Vietnam, Asia

1. INTRODUCTION

Inequality in wealth and income is often the source of tension between large disenfranchised groups of relatively poor minorities and the majority population. Failure to address this inequality may lead to ethnic conflict, resulting in poor economic performance and political instability (Easterly & Levine, 1997). Although ethnic inequality is not a characteristic of transitional economies alone, such concerns tend to predominate in these countries due to high but unequally shared growth in incomes, substantial differences in initial endowments and dramatically changing institutions and economic conditions that often quickly leave the poor behind.

Vietnam offers a useful case study in this regard. In the transition to a market-based economy, Vietnam has experienced remarkable success in economic growth and poverty reduction. GDP per capita in 2008, for example, was three times larger than that in 1986, when Vietnam first made a landmark commitment to economic reform (General Statistic Office, 2000, 2009). Between 1993, when the first household expenditure survey was conducted, and 2006, the poverty rate among the population as a whole fell from 58% to 16%.

Nonetheless, the gains from growth have not been shared proportionately among different groups of people. For example, while the poverty rate of the Kinh and Chinese (defined as the "majority" in this paper) fell from 54% in 1993 to 10% in 2006, for other ethnic minorities as a whole (defined as the "minority"), it decreased more modestly, from 86% to 52% over the same period of time (World Bank, 2007). Moreover, in 2006, the minority group accounted for 44% of the poor and 59% of those classified as "hungry" in Vietnam, despite representing only 14% of the country's population (World Bank, 2007). The gap in expenditure between the two groups has also widened over time (Baulch, Nguyen, Nguyen, & Pham, 2010; Baulch, Pham, & Reilly, 2012).

The Government of Vietnam has a number of policies and programs in place to help the minority group. These policies and programs are based on two approaches, those that target communes and those that target households. As an example of the former, Program 135 largely finances local infrastructure improvement (e.g., the provision of roads, power, and water) in communes faced with extreme difficulties, often in remote and mountainous areas with large minority populations. For the latter, the Hunger Eradication and Poverty Reduction Program (HEPR), targets poor households (largely the minority), by providing access to credit, exemption from education fees, and support for health care, among other benefits. In spite of these policies and programs, progress in raising the living standard of the minority has been much slower than that for the majority.

This paper examines what drives the gap in the living standard between the majority and minority groups, measured by differences in household expenditures per person. In particular, we investigate the role of language barriers [1] and how they may hinder minority households from taking advantage of their acquired skills and attributes; whether commune infrastructure, a key instrument used by the Vietnamese Government to narrow the ethnic gap, works for or against

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the minority; and to what extent preferential treatment and differences in endowments, as opposed to returns to endowments, explain the ethnic gap in expenditures.

Using household survey data in Vietnam, conducted in 2006, our paper contributes to the literature in two important ways. First, it points to language as potentially an important factor explaining the ethnic gap in expenditures. Traditionally, language has yet to be explicitly controlled for in econometric models examining ethnic inequality in Vietnam.[2] One reason for this could be the small sample size of household data with language variables in the first and early national surveys conducted in Vietnam.[3] But perhaps a more fundamental reason is that most studies are restricted to an Oaxaca–Blinder (OB) decomposition framework. Here, the differences in average outcomes in the two groups are decomposed into differences in the average level of each characteristic and differences in the returns to these characteristics between groups. As language barriers are almost entirely restricted to the minority, inclusion of this variable in the model for only one group is essentially a problem of a lack of common support, violating a key identification assumption in an OB framework (Fortin, Lemieux, & Firpo, 2011). In qualitative analyses, on the other hand, this is never the case. Language barriers are seen as key and have been highlighted as a major constraint preventing the minority from taking advantage of government policies and programs (see Tran, 2004; Vasavakul, 2003; Vietnam Academy of Social Sciences, 2009; World Bank, 2009a, among others).[4] Our findings quantitatively corroborate this claim.

Second, we use an econometric technique that allows us to consistently estimate the difference in household responses to both household-level and commune-level observed variables between the two groups. Specifically, we use the moment conditions underlying fixed effects estimators to define instruments for some variables. This allows us to combine the mathematical logic of fixed-effects techniques at differing spatial levels along with conventional instruments in an overarching instrumental variables framework. To this end, our estimation method differs substantially from existing economic studies on ethnic inequality in Vietnam, which either consistently estimate the household response to household-specific variables only, or estimate its response to both household and commune variables but with significant bias. The objective of measuring the household response to both household-specific and commune-specific observed variables is complicated by two potential concerns. The first is the existence of common commune-specific unobserved characteristics, such as local customs, practices, and land and school quality, which are likely correlated with household-specific characteristics. Failure to control for this correlation in the use of an OLS estimator (e.g., Baulch *et al.*, 2010, 2012), for example, causes potential bias in estimating returns to those household-specific characteristics (Baltagi, 2005; Hsiao, 2003). This bias can be eliminated using least-squares dummy-variable (LSDV) or fixed effects (FE) estimators as used in Hoang, Pham, Tran, and Hansen (2007) and Van de Walle and Gunewardena (2001). However, this way of eliminating the bias comes at the expense of the ability to estimate household responses to commune-specific observed attributes such as geographical characteristics and infrastructure.

The second concern involves measuring the household response to infrastructure. There are at least two reasons for the need to consider infrastructure in quantifying the expenditure gap by ethnicity in Vietnam. The first is that the minority tends to live in more remote areas, characterized by difficult terrain, poor roads, no power, and limited access to markets, making it difficult to isolate the effect of ethnicity itself on the expenditure gap. The second reason is that majority households living in the same remote and impoverished areas are doing increasingly well, to the point of being difficult to distinguish from their counterparts in the low-land communes (Swinkels & Turk, 2006).

This second concern comes from the way infrastructure is provided and how decisions are made on its provision in Vietnam. On the surface, there might be a two-way relationship between infrastructure and household income, hence expenditure. But in Vietnam, infrastructure is delivered at the discretion of the Government in a one-party system. Furthermore, the Government has invested in both growth and disadvantaged areas, making the link between household expenditure to infrastructure, if any, weak. However, depending on how these often decentralized government decisions are made, it is still possible that there is a high correlation between the availability of infrastructure and unobserved factors at different government levels. If so, ignoring this possible correlation using an OLS estimator could lead to potential bias in estimating returns to infrastructure. Recent literature using OLS estimator indeed suggests that majority households benefit more from local investment and government poverty reduction programs than minority households, thereby further exaggerating the gap in expenditure between the two groups (Pham, Le, & Nguyen, 2011, p. 3). Our results find no evidence to support this view.

The paper is organized as follows. Some background is provided in Section 2, including detail on ethnicity and the key government programs designed to assist the minority. Data and variables are described in Section 3. Section 4 provides the model specification and estimation method and Section 5 presents results. Section 6 concludes, highlighting policy implications and scope for further research.

2. ETHNICITY, MIGRATION, AND PROGRAMS AFFECTING THE MINORITY

There are 54 officially classified ethnic groups living in Vietnam, including the Kinh and Chinese (Bui, 1999). The Kinh group accounts for about 86 per cent of the population. In spite of their diversity, ethnic minorities are usually grouped based on the place where they live. For instance, there is a tendency to lump together the ethnic groups in the Northern Mountains, in the Central Highlands, and in the lowlands. The largest proportion (about 12 million people) lives in the first two areas. The group in the lowlands comprises mainly the Chinese in Ho Chi Minh City, the Khmer in the Mekong Delta, and the Cham in the Southern Coast. The biggest groups after the Kinh are the Tay (1.2 million people), the Thai (one million), and the Khmer (one million). The smallest groups, including the Si La, the Pu Pep, the Ro Man, the Brau, and the O Du, include less than one thousand people each (Huynh, Duong, & Bui, 2002).

Ethnic minorities have been affected by the consequences of Doi Moi, the process of economic reform and trade liberalization initiated in 1986, much the same as the rest of the population. These economic reforms have resulted in an unambiguous improvement in living standards in Vietnam. A combination of better incentives, improved access to markets and government support was critical to this success. But ethnic minorities have also been affected, not always positively, by specific public policies and programs. Some of those policies and programs have had a dramatic impact on their livelihoods, both before and after Doi Moi.

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