



Income Inequality in Developing Countries and Suggestions for Vietnam

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Abstract

This study looks into income inequality in developing countries in the world under the context of globalization and international economic integration. The authors concentrate on analysing reality of income inequality in certain typical countries and discussing effects of income inequality on socio-economic development. This study also figures out main reasons for income inequality in those countries. Then, the authors propose some policy suggestions for Vietnam to ensure its growth attached with the mitigation of inequality which tends to increase in the context of globalization and current international economic integration.

Keywords: income inequality, developing, Vietnam



1. Introduction

Together with economic growth achievements, labour income in developing countries has also been growing up. This results from social policies aiming to solve employment- related problem and mitigate inequality through income redistribution. However, in parallel with economic growth and development, income inequality also tends to increase, typically in developing countries in Asia, Africa and Latin America.

Although economic growth model and socio-economic institutions in each country might be drivers for its development and contribute to life improvement as well as life quality, they are elements causing inequality in income distribution. On the one hand, from the economic and labour effectiveness aspect, the rich and poor gap is an objective, logical and inevitable result. On the other hand, this gulf still has positive values to some extent. However, from social effectiveness perspective, income gap is a negative element which should be improved. Due to the significant role of this issue, the authors decided to select it as the topic for the study.

2. Literature review

The analysis into reasons for income inequality is essential to identify solutions that can mitigate this problem. In fact, the traditional question in studies on income inequality is “how the increase in trade openness influences income distribution”. However, estimations on income inequality provide incomplete comparison among various countries in different regions in the world. Hypothesis proving negative effects of globalization on income inequality can easily explain the difference in salary between high and low skilled individuals. At the same time, globalization means a nation can import products with lower price and pay by exporting more valuable service products of high technology, then, salary for skilled labour might be relatively higher than that for unskilled one. As a result, it can be argued that globalization leads to inequality in rich countries.

Some economists suppose that changes in manufacturing technology result in the increase in equality. The intuition behind this perspective implies that technological changes would better support skilled labour and replace tasks previously carried out by unprofessional staff. Atkinson (2015) introduced a simple viewpoint of economic theory approving this hypothesis.

Autor, Dorn and Hanson (2013) researched effects of the rise in the import of Chinese products into American market in the period of 1990 – 2007. They identified that the increase in Chinese products in the period of 1990 – 2007 cause higher unemployment, lower participation of labour and lower salary in local labour market where industrial factories had to compete with imported products.



The study by Lopez-Calva and Lustig (2010) demonstrated that main factors contributing to the inequality in Latin American countries should cover (i) decrease in income gap between high skilled and low skilled labour; and (ii) increase in government support for the poor. These authors stated that the inequality would decline in countries ruled by analysts, which were so-called right wing political label (like Brazil and Chile) and in countries ruled by ‘*non-right wing*’ label (like Mexico and Peru).

In developing economies where inequality was often at high rate and common labour accounts for major quantity, trade openness increase might cause export increase, then, gradually decrease income inequality (Easterly, 2005). Nissanke and Thorbecke (2006) indicated that a rise in the openness would be in companion with the rise in foreign direct investment (FDI) and popularity of new technology as well as tips. This should lead to an increase in productivity, capacity and perhaps salary as well as job opportunities.

Globalization process also put an influence on income distribution. According to Adams (2008), the usage of patent as a mechanism to protect intellectual property and promote innovations in economies would result in equality decrease. Similar findings were observed by Acemoglu and Newman (2002). Based on their viewpoint, it was revealed that in developing economies, common labour was the majority and technological advancement would help to improve productivity. As a consequence, the expansion of knowledge might raise income of unskilled labour (Fang, Huang and Wang, 2008) as well as promote income distribution better.

Unemployment is apparently as reason for poverty. Blinder and Esaki (1978) provided the first description of the relationship between unemployment and income inequality. Their idea implied that unemployment tended to have fewer impacts on low skilled and low salary people than other groups. Therefore, the unemployed seemed to cover mostly the bottom part of income distribution (Martínez, Ayala and Ruiz-Huerta, 2001).

The success of social policies has been a controversial issue in different studies. There was experimental evidence showing that the increase in minimum salary would be a significant tool to oppose to income inequality (Lemos, 2009). Furthermore, as stated by Engel, Galetovic and Raddatz (1999) and Goñi, López and Servén (2011), governmental policies should be an effective approach to decrease inequality. On the other hand, Feldstein (1974) argued that social expenses (welfare, social security ...) might increase income.

Another related issue is the influence of political system. The study by Adelman and Morris (1965) on the relationship between social variables and politics was reanalysed. Also, based on the observation by Rupasingha and Goetz (2007), greater political competitiveness would lead to lower



poverty. Corruption was also considered as a relevant factor to income inequality: the increase in corruption would cause greater income inequality (Gupta, Davoodi and AlonsoTerme, 2002; Dincer and Gunalp, 2008; Apergis, Dincer and Payne, 2010), in which high-income family would receive a large proportion incompatible with benefits. (Forteza and Rossi, 2006).

Other studies on China case demonstrated that in the past two decades, China experienced apparent poverty decrease attached with income inequality increase. Rapid economic growth in China helped million people escape from poverty and led to huge poverty decline. However, economic growth did not bring about the same benefits to all population segments. In particular, income difference increased, causing the big rise in income inequality (the peak in 2008). This was a concerning point because recent studies identified that high rate of inequality would be harmful to the speed and sustainability of the growth (Phúc sinh, 2007; Berg and Ostry, 2011; Berg et, al., 2012; Ostry et, al., 2014; Xương et, al., 2018; Dabla-Norris et, al., 2015). In addition, inequality rise might prevent and limit innovation potentiality (Alesina and Rodrik 1994, Alesina and Perotti 1996, Perotti 1996, Posner 1997, Benabou 2002, Rajan 2006).

3. Research methods

The authors applied qualitative method, descriptive statistics to analyse the reality of income inequality in some developing countries as well as effects of income inequality. Based on the discussion about reasons for income inequality, the authors proposed certain policy suggestions for the case of Vietnam.

GINI index is the most common tool for inequality measurement. It considered income distribution or richness of a nation. In order to assess the inequality rate, the authors researched the index widely used by economists, which is GINI (income inequality measurement index). GINI index varies from 0 to 1. GINI at 0 means optimal equality. GINI at 1 means optimal inequality. GINI at 0.5 is regarded as high inequality.

4. Reality of income inequality in certain developing countries

4.1. China

Income inequality is also understood as “Unbalance” in development, which refers to non-homogeneous development between rural and urban areas as well as economic and social areas. Then, the difficulty in getting access to services of education, healthcare, employment and social security became a concerning problem (De, 2007).

Since the economic reform (in 1978), gross domestic product (GDP) of China has gone up dramatically. Thanks to high growth rate, China’s GDP scale based on current price increased

significantly by 44 times from approximately 305.4 billion USD in 1980 to 13,457.2 billion USD in 2018. In 1980s, GDP of China ranked the 8th in the world, however, in 2010, it moved to the second¹. According to statistics in 2017 by IMF, China's economic proportion in global economy rose nearly 5.8 times, from about 2.7% to approximately 15.9%.

GDP per capita of China increased by 2 times per each 8 year period and more than 2 times per each 10 year period. Currently, China is selected by World Bank (WB) as one of nations having high-average income. When the income is considerably improved, poverty rate in China also dramatically decreases. According to OECD, poverty rate in rural area was about 96% in 1980, which went down by 16 times to 6% in 2015.

However, in parallel with strong growth in the past years is the rapid increase in income inequality in this second big country in the world. The biggest income gap was in 2008 with GINI index at 0.491 (30 years after the reform).

GINI index seemed to gradually decrease but at slow rate from 2008. Nevertheless, this change was mainly due to the decrease in proportion of 20% population with high income and increase in proportion of 20% population with middle income; at the same time, the proportion of 20% population with the lowest income did not increase (Jain-Chandra et al., 2018). The same situation like this happened to a number of Western and Latin American countries. However, some Eastern Asian countries did not follow this stream. Income inequality in Japan, South Korea, Taiwan decreased during their industrialization without any unexpected increase (Acemoglu & Robinson, 2012).



Figure 1. GINI index of China, 2006 - 2017

Source: Self-collected from National Bureau of Statistics of China, Central Intelligence Agency

¹ Based on real GDP price, based on GDP- Purchasing Power Parity - PPP, China's economy exceeded America's since 2014.



According to statistics by National Bureau of Statistics of China, GINI index in 1981 was 0.29; in 1988 was 0.382, which continuously increased in 2008 (0.491). This number in 2015 was 0.462; in 2016 was 0.465 and in 2017 was 0.467. This revealed a huge gap in the income of China's different social classes, which was at "red alert" of inequality of income distribution. Scholars and independent organizations believed that the real GINI index was much higher than the statistics provided by the government². Among the most 25 populated nations in the world surveyed by World Bank in 2018, there were only 2 ones experienced higher GINI index than China, which were South Africa (0.63) and Brazil (0.53). Also, based on this result, GINI index of America only stood at 0.41 and that number of Germany was 0.3.

During the development process, the gap among different regions is unavoidable in any country. However, in China, this gap was much greater than other developing and capitalist countries, which was proved by its GDP, income, consumption capacity, public service supply, etc. According to statistics in 2016 by Peking University, 1% Chinese population accounted for 1/3 total assets; meanwhile, that number of 25% lower classes was 1%. China has been determined in poverty eradication. In 2015, Xi Jinping President supposed that this plan would be completed by 2020. This means that there will be no more Chinese living with income equal to 2,300 RMB per year. Nevertheless, in 2017, the number of the poor in China was still very high (about 30 millions).

Currently, in the world, the nation with the lowest income gap is Denmark, of which the GINI index is 0.247. Japan is an Asian country with the lowest income gap with GINI index of 0.249. So, compared with those countries, there is a big distance for China to overcome in order to get lower gap of inequality, which aims at achieving the objective of "general prosperity for everyone" as stated in political report in 19th Congress.

4.2. South Africa

Peaceful political transition in South Africa is known as one of the most noticeable political achievements in the past century. More than 2 centuries (25 years) since South Africa ended racial discrimination between the white and the black (Apartheid), South Africa experienced significant movements in improving social welfare, especially after the democracy milestone in the middle of 1990s. However, these improvements have been slower.

Based on the international poverty line of 1.90 USD/day (equal to purchasing power in 2011), 18.8% population of South Africa was categorized as the poor in 2015 (decreasing from 33.8% in 1996). Factors driving this process included real income growth, social security network

² AFP cited information from Survey and research center for China Household finance, stating that Gini index– the common measurement for inequality – of China in 2010 was 0.61, much higher than estimation of 0.481 given by some institutions.

expansion and basic services access with assisted housing credit. However, poverty reduction process slowed down in recent years, in specific, poverty rate (1.90 USD/day) increased from 16.8% to 18.8% in the period from 2011 to 2015 (SSA, 2017).

Currently, the rich and the poor gap between the white minority and the rest population of this country is still great. After the past 25 years, South Africa became the country with highest inequality rate in the world. According to WB, “South Africa, the biggest economy of Africa and the only one nation in G20, still is exposed to inequality and socially marginalized at an abnormal level for a medium-high average income country”.

According to evaluation by WB, 10% of the richest in South Africa accounted for 58% of total income of this nation, meanwhile, 10% of the poorest accounted for 0.5% of total national income. Half of population in South Africa lived with the rate lower than 8% of national income (SSA, 2017).

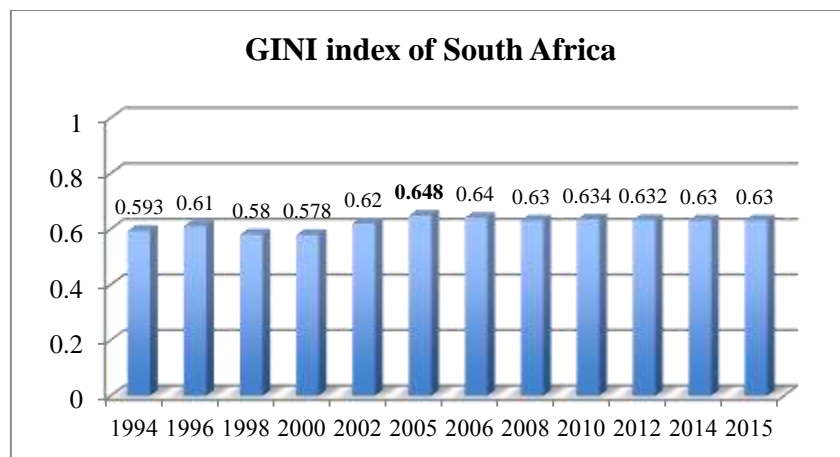


Figure 2. GINI index of South Africa, 1994 – 2015

Source: World Bank

Measuring income inequality through GINI index revealed that South Africa was a dual economy with one of the highest inequality in the world shown by GINI index of 0.63 in 2015 (increasing from 0.593 in 1994). From 1996 to 2000, inequality rate seemed to slightly decrease. However, it increased and reached the peak in 2005 with GINI equal to 0.648. Research findings released by WB demonstrate that after the end of racial Apartheid, children’s gender and racial root as well as education shortage mostly decide the success of their life, even when they are 18 years old. This greatly affects income distribution in this biggest African country.

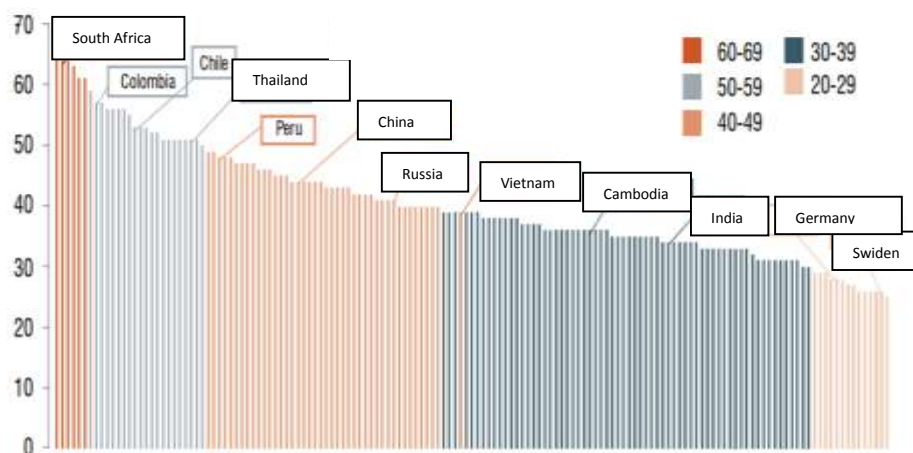


Figure 3. GINI index of different countries in the world

Source: United Nations, world's development indexes and household living standard survey in 2012.

High inequality rate in South Africa was maintained due to an “exceptional heritage” and the nature of economic growth. This means “Non Pro-Poor” economic growth and created inadequate jobs for labour. Asset inequality is even higher: 10% of the richest accounts for about 71% of net asset in 2015, meanwhile 60% of population with bottom income hold 7% of net asset. Moreover, the inequality is passed by from generation to generation with few changes in the timeline. South Africa is often compared with Brazil, a nation with great income gap. However, while Brazil obtained significant achievements and decreased this gap in the past decade, it is still great in South Africa.

4.3. Brazil

Brazil is a powerful economy in South America, and the world, which is categorized in the group of new emerging economies (China, India, Russia) and one of 10 nations with the biggest economic scale in the world. GDP of Brazil in 2017 was 2,056 billion USD, GDP per capita is 11,000 USD/year. However, this country has still been facing unstable troubles due to inequality. In 2018, Brazil population reached more than 211 million, of which the poverty rate was more than 20%.

In the past years, Brazil has been positively evaluated as one of the countries having highlighted achievements in poverty reduction and special policy prioritizing the poor. After many years implementing the program “No more the poor in Brazil”, this country assisted and sponsored capital for the poor by financial source (evaluated as the greatest in the world) reaching tens of

billions USD as well as created jobs for tens of millions of people. Despite being regarded by UN as a “miracle” country in poverty reduction, this country still maintains inequalities and conventional rich-poor gap with high rate of poverty. Therefore, government’s policies and resources have still been limited which is impossible to support all the poor.

Economic recession in 2015 - 2016 as well as scandals and political corruption cause difficulties for Brazil’s economy in recent years. Currently, among 5 Brazilians, there is 1 living under the poor line and about 4% population live with 3.2 USD/ day. About 53 million people are in the difficult group, of which 20 million people are poor; about 9% of 100 million people in the working age is unemployed. GINI index of Brazil belongs to the highest group in South America, which is equal to that of countries with biggest rich and poor gap in the world (the average income of the poor is just about 40 USD/head/month).

Unit: %

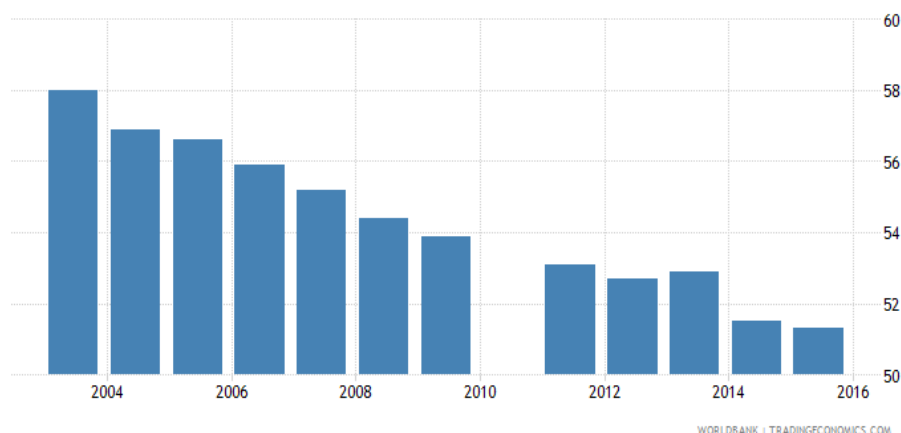


Figure 4. GINI index of Brazil, 2004 - 2016

Source: World bank

Recent report by Oxfam, a non-governmental organization about poverty opposition showed that the world has been facing serious income inequality. Brazil is one of the countries with the deepest inequality. Currently, the gap between the rich and poor in this country has reached 35 times. Brazil has its own “bright” aspects such as modern cities, skyscrapers, busy cities with luxurious hotels, modern sport centre in Brasilia, Sao Paulo, Rio de Janeiro, where there are numerous millionaires of this country. About 5% population of Brazil owns villas on the beach, personal aeroplanes and yacht. On the other hand, the contrastive picture is temporary housing, where the common labour has to manage to earn money day bay by. Economic growth

achievements in the past are not equally divided for different classes of population, so, the rich becomes richer, the poor becomes poorer. (Oxfam's report, 2019).

5. Effects of income inequality

5.1. Income inequality-the source of other inequalities in the society

Income inequality might decrease opportunities accessing to the advanced education services, study and knowledge achievement of the poor. This would curb human capital and make professional competence lower than the optimal probability for economic development. Income inequality is also recognized as a problem negatively influencing healthcare, decreasing productivity and development due to limited opportunities to get healthcare services which is derived from low income.

Organization for economic co-operation and development (OECD) believed that inequality in education assess is an important factor behind the relationship between inequality and growth. According to OECD, "One of significant channels through which inequality negatively affects economic activities is the decrease in investment opportunities (especially education) for the poor in the society". This conclusion is based on the observation that children in low income families always stay "behind" those in rich ones regarding knowledge level (qualification and number of school year) or academic performance³. Findings in Vietnam context is also a typical illustration for this point.

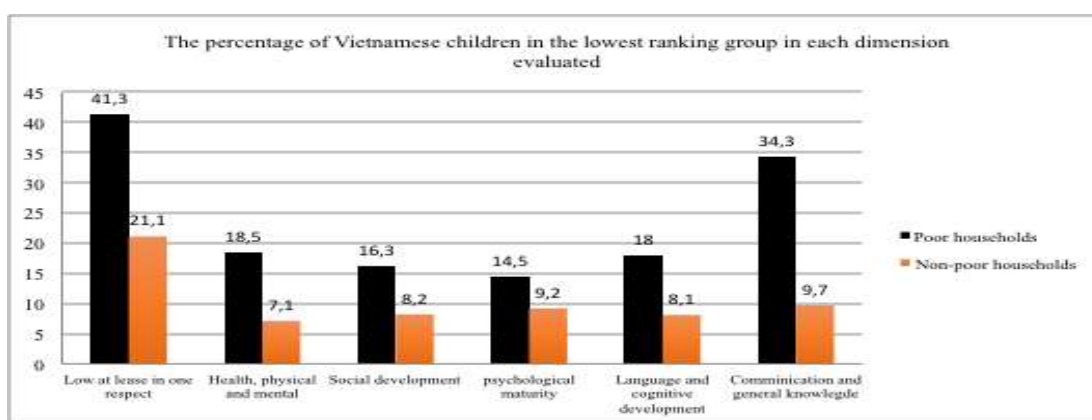


Figure 5. Vietnamese children born in low income context and their vulnerability of willingness to school

Source: OECD, World Bank (2013)

³ Mai Uyên, Income inequality 's non-beneficial impact in growth
<http://cafebiz.vn/thi-truong/bat-binh-dang-thu-nhap-se-gay-tac-dong-bat-loi-cho-tang-truong-20151015114623482.chn>



In the past 20 years, the average gap between the poor and the rich has increased nearly 0,4 times/year. This division of the rich and the poor entails inequality in social service benefit and access. UNDP's report indicated clearly that social security has been left behind, especially in developing countries. "The highest income group – 20% the richest receives about 40% of social security benefit and 45% healthcare assistance. On the other hand, the poorest group gets only less than 7% in both of the two criteria"⁴.

5.2. Income inequality-the source of social instability

The rich and poor gap might cause risks in social instability. Great differences in terms of income distribution among classes of population in China result in the increase in other inequalities. This is the root of social claims, which are becoming troublesome in this country. It is impossible to avoid the increase in the number of the poor due to the continuous rise in income difference. At the same time, this big gap causes disapproval psychological feeling in the groups of middle and low income. In recent years, the big rich and poor gap has been a problem calling for attention of the society. This might lead to more social conflicts and controversies. Then, it can be potential for the influence of risks on the stability of socio-politics.

5.3. The negative impact of income inequality on growth

Inequality causes higher tax pressure, which leads to policies decreasing growth (Alberto Alesina and Dani Rodrik, 1994). Then, better distributed income would mean more people approving low tax (However, there are some perspectives supposing that income inequality is advategous for the growth because the middle class at bigger size would benefit from it (Torsten Persson and Guido Tabellini, 1994).

Based on the statistics by America's states, it is identified that income inequality at high rate would prevent economic growth. This effect is potential in the long run. The increase in inequality has long-term negative impact on economic development. Inequality can result in other effects. Although it is essential to carry out further studies, current experimental evidences show that income inequality has negative effect, especially in big and powerful economies. So, what is the route of this negative effect? In America, income inequality can decrease learning opportunities of the poor if they cannot afford to pay fee. This might limit the development of human capital-an important element to manufacturing resource. This also reduces the optimization of economic development resources. In addition, income inequality is also recognized as a negative impact on heathcare, which leads to the decrease in working productivity.

⁴ Statistics by UN and CIA.



Other indirect channels can also be resulted from unstable finance. Some empirical evidences show that income inequality might increase financial crisis possibility. Certain economists argue that income inequality might stand behind a massive crisis and recession. They explain that income inequality is the reason for financial unstablity because it leads to higher risks in the economy.

The report by OECD also reveals that from 1990 to 2010, GDP per capita in 19 core countries of OECD increased by 28%. However, this number could have been about 33% at the same period if inequality had not risen after 1985. This estimation is given based on an economic analysis into 31 nations of OECD, which have high and medium incomes. It is also indicated that one decreasing inequality score of “GINI” would improve annual GDP to 0.15%.

6. Reasons for income inequality

Firstly, differences in specialized knowledge, skills, jobs (also called human capital)

Human capital is the term used to refer to knowledge and skills employees obtain through education, training and experience. Labour with high human capital would bring about higher income than other kinds of labour. This can be explained by the fact that: From demand perspective, employees with higher specialized level often create better marginal products, then, enterprises are willing to pay them higher salary. From the supply perspective, employees are eager to improve their knowledge only if they are appraised with appropriate reward. Compared with low level labour with limited skills, high level one with good skills have better opportunities in getting access to well-paid jobs.

Secondly, industrialization, urbanization and economic transition from agriculture to industry and service

These processes strongly happen in developing countries, causing the loss of land for agriculture. For example, in Vietnam, in Mekong Delta river, 1/3 of the poor in rural area does not have land. This number rises dramatically. As a result, their main income decreases, making the gap between rural and urban areas greater. In China, on average, each year, there is a loss of about 3,000 km² land for agriculture. This also affects the productivity of planting trees and raising animals. So, the impact on income inequality tends to increase.

Thirdly, globalization and international economic integration

Globalization is an integral tendency which has been strongly happens in the world. Developing countries take advantage of this opportunity to establish strategies to attract foreign investment, especially FDI. FDI contributes to the improvement of human resource for sponsored



countries through the direct involvement of enterprises. During the integration process, FDI capital stream into developing countries has been increasing. This plays an important role in adding capital source to social investment in these places because in here the capital source for development is limited. In the case of Vietnam, from 2007 to 2018, FDI supplemented about 24% to 30% capital source for the development, contributing from 18% to 20.5% GDP, solving job related problem and helping to decrease unemployment rate⁵.

However, FDI is also one of elements causing income division. Changkyu (2006) identified the relationship between FDI and income inequality in different countries. The analysed results showed that both input and putput FDI have an impact on increasing income inequality. In fact, FDI enterprises are more competitive in attracting managing labour due to their salary policy. Although workers' income in FDI is not high (about 6 million/month), salary for mamaging labour (20-40 million/month) in these enterprises is much higher than it is in state-owned ones (11 million/month) and private-owned ones (7.4 million/month on average)⁶. So, in the short term, FDI wave can increase income inequality.

Forthly, differences of natural, socio-economic conditions in different economies

In numerous countries, natural characteristics of different regions are greatly different. People in delta area have convenient transport, more developed infrastructure, technology, culture, healthcare and education than remote areas. This directly causes imequality in income of these economic regions in those countries.

7. Suggestions for Vietnam to ensure economic growth attached with inequality mitigation

Sustainable development is the objective of all nations in the context of globalization. This can be understood from 3 perspectives: economic sustaible development, social, cultural and human sustainable development as well as environmental sustaible development. Implied benefits of income inequality decrease are great to countries in the world. A typical study in this case in America, which has relatively high inequality rate with fast rising speed compared with standard given by OECD. Based on estimations by OECD, if America can decrease inequality to the same rate as it is in Canada, its GDP can increase by 0.9%/year. This shows that in order to comprehensively and sustainably develop, countries should aim at minimizing inequality in income distribution.

⁵ Yearly enterprise survey statistics by Vietnam's general statistics office.

⁶ Report by Mekong Economics and synthesis of statistics by Ministry of labour and social affairs , Vietnam in 2017.

Vietnam has fast pace growth rate in the past 30 years, with an increase in average income and great decrease in the number of the poor. In fact, nearly 30 million people got out of poverty libe in 1990s, when the average GDP per head increased from 100 USD in 1990 to 2,300 USD in 2015. However, together with economic achievements, Vietnam's income inequality also tends to increase, based on both GINI index and income propotion of 40% of the poorest population (Figure 6 and 7).



Figure 6. GINI index of Vietnam

Source: Vietnam General Statistics Office

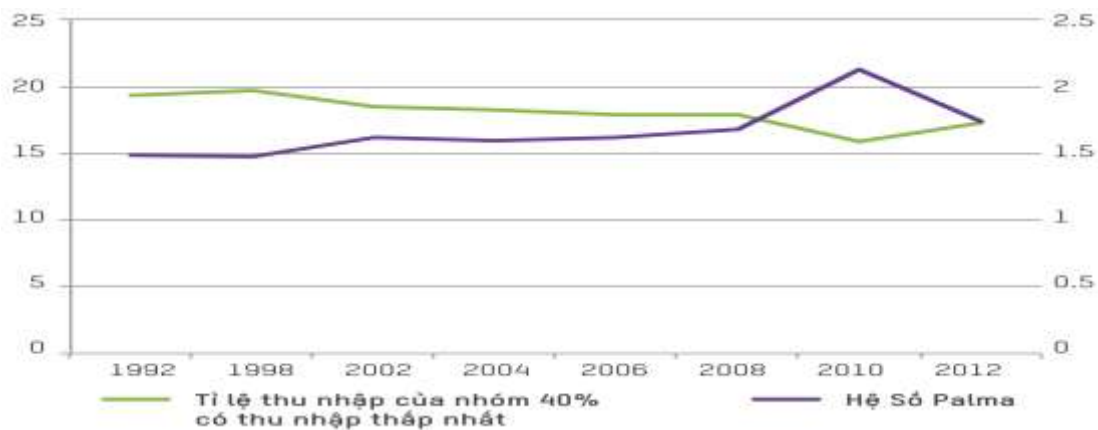


Figure 7. Increases in income inequality in Vietnam, 1992 - 2012

Source: Vietnam Oxfam

Vietnam's economic development model at post Innovation period was successful in creating high growing speed, helping most of Vietnamese overcome poverty with wealthier life. However, in order to minimize the gap between the rich and poor which tends to increase, it is



essential for Vietnam to consistently carry out policies on state governance, tax system, public expenses and public services. This means there should be policies giving instructions on rich-poor gap mitigation, which cover more than poverty reduction projects. The Socialist Party and Government should concentrate on implementing institutions reform; ensuring transparency, publicity and effectiveness of macro-economic policies especially in investment area. At the same time, it is suggested to continuously implement policies on social security.

Figure 3 states that nearly half of nations in the world have lower GINI than Vietnam. This means rich and poor gap here is rather great. The mitigation of inequality is an important issue to sustainable development. Within the scope of this study, the authors propose the following suggestions to ensure economic growth and limit income inequality in Vietnam:

- ***Investment in human capital development***

According to Marx, “Humans rank the first in labour resource” and W.Petty “Land is mother, labour is father of all social properties”. Human resource development is the most important factor that can ensure economic growth and eradicate poverty. “Human capital” is the decisive factor in economic aspect of each individual in the society. In order to develop the human resource, Vietnam’s government should focus on the following aspects (i) continuation of the State innovation, the Government should complete policies on management and development of human resource; there must be innovation on management methods to improve the operation, reform policies, mechanism, human development tool and management; (ii) commitment to financial source, distribution and appropriate usage of the State budget, especially, concerning low income group, rural people whose gap with citizens is great, there must be enhancement of programs and training courses prioritizing and implementing social equality.

- ***Improvement of labor productivity in agriculture***

This is the most direct approach to improve status of farmers, people with low income and the poor so that it is possible to mitigate the gap between different classes in the society. Agricultural productivity can be improved through the enhancement in applying modern technology and science, fostering mechanization in agriculture and diversifying agricultural support methods.

Although Vietnam is an agricultural country, having advantage in this field, it can be seen that in this sector, the rate of mechanization is really low, which is only about 20%. By contrast, in other countries, that number is much higher. For instance, in America, it is about 90%. America’s agriculture only accounts for 1.1% GDP (2010), its labour accounts for 0.7% of 153.9 million people of the working force in America, but, its agriculture is typical for industrialized and modernized model. Most agricultural activities are mechanized. In 2006, America’s government assisted 25 billion USD to support farmers’ income, price assurance and plant breeding. It is



essential for Vietnam to promote policies supporting agriculture and rural areas to improve income and living standard, especially, help low income people under the current globalization and international integration context.

- ***Encouragement of rural economic development***

The Government should encourage the expansion of different industrial fields and services in rural areas. On the one hand, this helps to create local labour. On the other hand, it limits the increase of rich and poor gap. In the roadmap of industrialization and modernization, Vietnam concentrated on agricultural development and considered it as the foundation for industrialization. However, due to globalization and integration, FDI stream into advantageous economic regions has made income inequality increase. Thus, encouraging rural economic development is one of important factors to ensure growth and limit inequality.

- ***Increase in public projects' investment in underdeveloped regions***

This is a solution to remote areas so that the poor there can better access to job opportunities and improve their income. In order to implement this, the Government should improve local human quality by supporting training courses on human resource, building up public constructions and consistently investing in infrastructure.

Furthermore, the Government should establish income and non-income distribution mechanism, introduce measures to adjust property inequality and improve public service supply quality.

Although Vietnam has got numerous policies to ensure social security, disadvantageous people's benefits from economic development are much lower than those of minority number of prioritized and privileged ones.

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