

# VIETNAM POLICY BRIEF

## COMMITMENT TO REDUCING INEQUALITY INDEX (CRII) 2020

The Commitment to Reducing Inequality (CRI) Index 2020 is a multidimensional index which ranks 158 countries on their policy performance to reduce inequality through public services, progressive taxation and labour rights. This third edition of the index builds on the previous two in 2017 and 2018 by Oxfam and the Development Finance International (DFI).

Overall, Vietnam does well on the Commitment to Reducing Inequality Index (CRII) within ASEAN, coming second within ASEAN, and ranks 77 out of 158 countries this year globally.

CRII RANKING IN ASEAN MEMBER COUNTRIES <sup>1</sup>								
	PUBLIC SERVICES		PROGRESSIVE TAX		LABOUR RIGHTS		OVERALL	
Country	GLOBAL RANK	ASEAN RANK	GLOBAL RANK	ASEAN RANK	GLOBAL RANK	ASEAN RANK	GLOBAL RANK	ASEAN RANK
Thailand	70	1	40	4	103	5	68	1
Vietnam	89	3	12	1	119	8	77	2
Malaysia	93	4	85	6	69	2	78	3
Indonesia	111	6	34	3	111	6	93	4
Myanmar	140	8	63	5	77	3	98	5
Singapore	87	2	145	9	67	1	107	6
Philippines	100	5	106	8	96	4	109	7
Cambodia	128	7	33	2	114	7	111	8
Lao PDR	152	9	98	7	143	9	144	9

Source: CRII 2020 Report, Oxfam

### 1) SCALE OF INEQUALITY

Vietnam has a strong record of poverty reduction, but today, increasing inequality is threatening decades of progress. Economic inequality is reinforced by inequality of voice and opportunity, which are correlated to a decline in inter-generational social and employment mobility<sup>2</sup>. The Gini coefficient by income in 2016 remained too high at 0.39, undermining poverty elimination and growth prospects. More needs to happen to make national taxation more progressive; increase allocations to public services; raise the minimum wage to a living wage level and expand coverage of social protection policies to all workers; close the gender wage gap; create an enabling institutional environment for

<sup>1</sup> Please note all data in this profile exclude Brunei, because insufficient data were available to include it in the CRII.

<sup>2</sup> Social mobility is defined as a change in the social status of an individual or household in the society. See [https://cng-cdn.oxfam.org/vietnam.oxfam.org/s3fs-public/file\\_attachments/Oxfam\\_Social%20mobility%20and%20equality%20of%20opportunity%20in%20Vietnam\\_ENG.pdf](https://cng-cdn.oxfam.org/vietnam.oxfam.org/s3fs-public/file_attachments/Oxfam_Social%20mobility%20and%20equality%20of%20opportunity%20in%20Vietnam_ENG.pdf)

fairer public policy, with citizens and civil society empowered to claim their rights; and monitor inequality as part of poverty reduction.

## 2) KEY POLICIES TO FIGHT INEQUALITY – LESSONS FROM THE CRII3

### COVID Preparedness

- Overall, Vietnam does well on the Commitment to Reducing Inequality Index (CRII) within ASEAN, coming second among the nine member states, but less well globally (77<sup>th</sup> of 158). As discussed below, it does better on tax than on public services and labour, though these elements have been slowly improving.
- Vietnam was moderately well prepared to confront the COVID pandemic, spending only 11% of its budget on health, and achieving only 75% coverage (2017).
- However, in 2019, 55% of the workforce were unemployed or in vulnerable employment, deprived of some labour rights such as sick pay; and only 45% of the unemployed were receiving some form of assistance.

### COVID Response

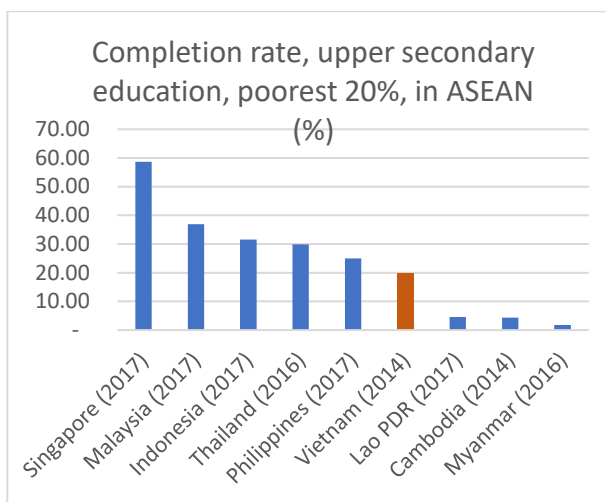
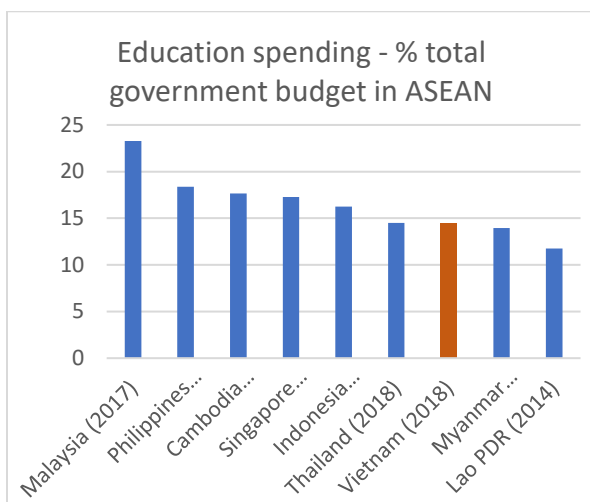
- Vietnam is widely acknowledged to have had one of the world's most successful responses and policies to tackle COVID-19. It moved rapidly with containment; targeted testing, tracking and quarantine; and public communications. It also included measures to limit increases in poverty and inequality, a plan on providing financial relief of US\$2.7 billion for 20 million vulnerable people, and paying workers whose contracts were suspended a monthly allowance of VND1.8 million, which need to be speedier and with simplified implementation process.

### 2.1. Public Services

- Overall, Vietnam scores only moderately on public services, coming 89<sup>th</sup> globally though third in ASEAN. It is particularly dragged down by poor education spending and coverage, and low social protection coverage. However, it has been making considerable progress in recent years.
- Education: Only 20% of the poorest complete secondary school in 2014 (6<sup>th</sup> best in ASEAN), compared to 90% of the richest. In 2018, with an education spending share at 14.5% of the budget, Vietnam ranked the 7<sup>th</sup> highest in ASEAN, and 85<sup>th</sup> globally, below the global Education for All target of 20% and down 5% since 2012.

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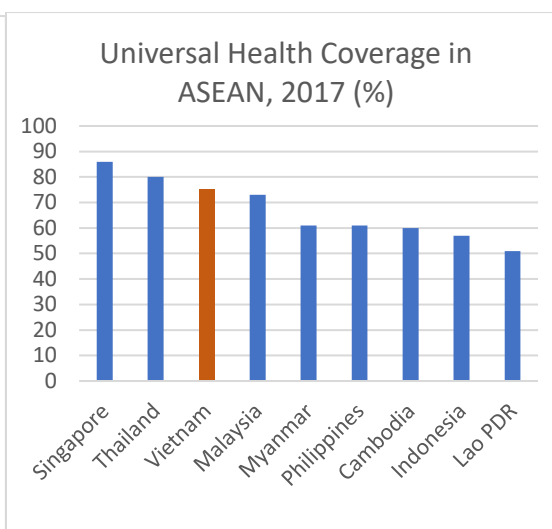
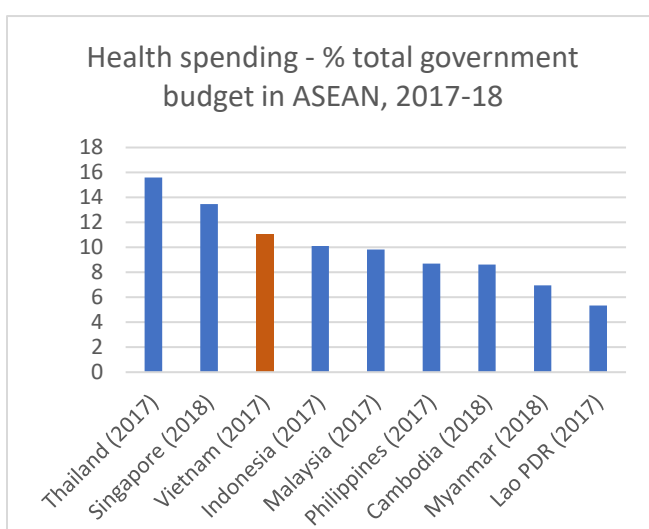
<sup>3</sup> Data in this section is extracted from CRII 2020, which may be not updated as CRII try to use various data sources from UN, IMF, WB, ADB, ILO etc. that can be comparable with other countries. See more at *Methodology Note*.



Note: Country (year of data)

Sources: CRII 2020 extracts and estimates data from multiple sources, see more at *Methodology Note*.

- Health: Vietnam spends only 11% of its budget on health in 2017, but this is the third highest in ASEAN (though only 72<sup>nd</sup> globally). It is up from only 9.4% in 2015, reflecting expansion of its health insurance programme. As a result, it has reached 75% universal health coverage in 2017, putting it third highest in ASEAN, but 9.4% of the population in 2016 still spent over 10% of their income on health services (third worst in ASEAN).

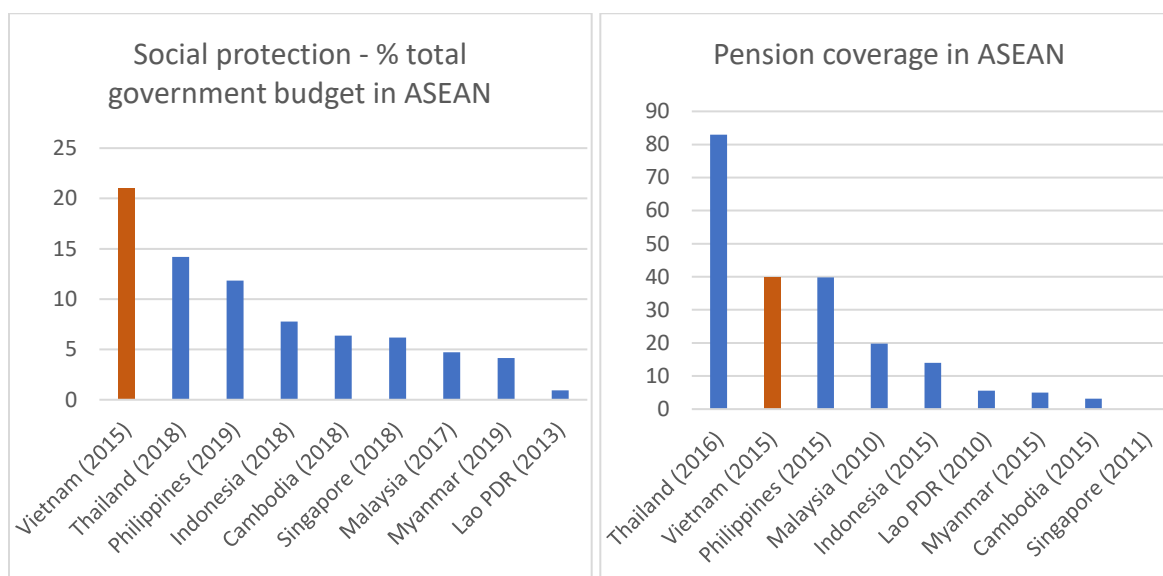


Note: Country (year of data)

Source: CRII 2020 extracts data from multiple sources, see more at *Methodology Note*.

- Social Protection: in 2015, spending is high at 21% of the budget, ranking it top in ASEAN and 65<sup>th</sup> globally. However, there is still a long way to go in achieving SDG 1.3.1 for universal coverage. For example, only 40% of the elderly receive a pension, and only 45% of the unemployed receive assistance.<sup>4</sup>

<sup>4</sup> The CRII uses pension coverage as a proxy for social protection coverage, because data on other types of social protection coverage are not yet available for many countries.



*Note: Country (year of data)*

Sources: CRII 2020 extracts data from multiple sources, see more at *Methodology Note*

- Impact on Inequality: overall, according to a 2016 World Bank/CEQ study<sup>5</sup> based on the 2014 household survey, public services spending was reducing inequality (Gini coefficient) by 0.033 or about one tenth, about one and a half times what Indonesia is achieving.

## 2.2. Tax

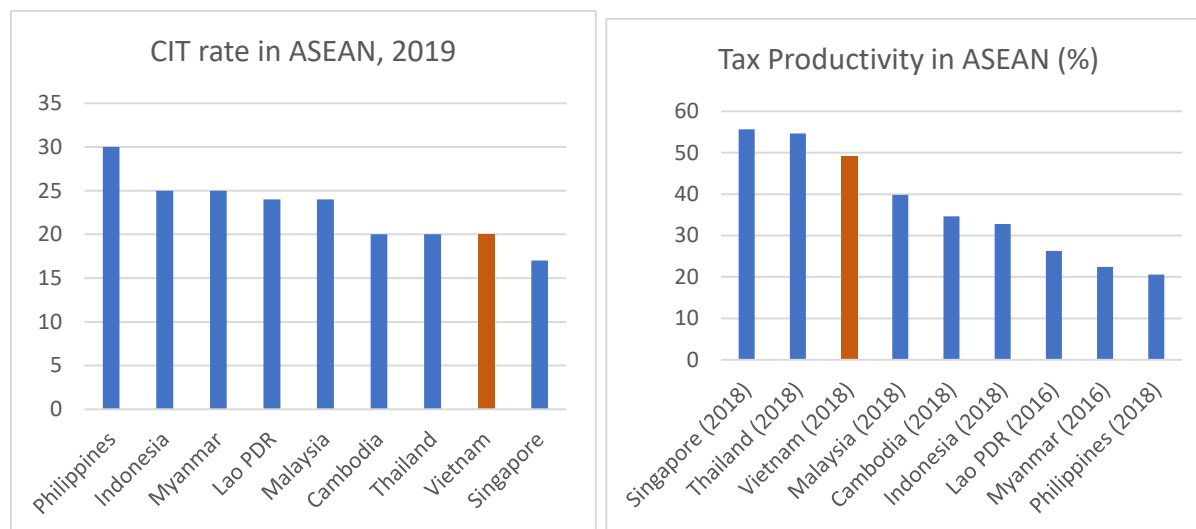
- Relatively, Vietnam performs well on tax, coming top in ASEAN and 12<sup>th</sup> globally. However, this is mainly because of (i) increasingly low commitments in the tax pillar all over the world and (ii) the methodology in which developed countries would score much lower than developing countries if they perform the same harmful tax practices, and there is much more which can be done to make its corporate income tax and VAT more progressive, and to increase tax collection so as to be able to spend more on public services.
- Progressive Tax System: (6<sup>th</sup> in ASEAN, 51<sup>st</sup> globally)
  - Vietnam has the least progressive VAT in the region. It exempts only some of the basic products the poor consume from VAT, and does not have a minimum threshold for VAT payments, which could exclude smaller traders from VAT and reduce costs for poorer customers.
  - Vietnam ranks 3<sup>rd</sup> regionally and 19<sup>th</sup> globally on personal income tax progressivity, with a top rate of 35%.
  - However, its CIT rate of 20% is very low in 2020 (joint 6<sup>th</sup> in ASEAN, 111<sup>th</sup> globally), and has been cut dramatically from an earlier level of 32%.
  - Vietnam ranks joint second in the region in term of “harmful” tax practices (e.g. tax haven, tax avoidance, and evasion). In practice, a recent study show that Vietnam’s tax expenditure from CIT incentives was estimated to be USD2.7 billion in 2016, equivalent to 7% of state budget revenue, 30% of CIT revenue.<sup>6</sup> In addition, tax evasion and avoidance caused a revenue loss

<sup>5</sup> See <http://documents1.worldbank.org/curated/en/334491474293198764/pdf/108348-REVISED-PUBLIC-ACS.pdf>. Only Indonesia and Vietnam in ASEAN have had impact analysis conducted by the World bank and CEQ.

<sup>6</sup> VATJ. (2019). Tax Expenditure in Vietnam: A Case of Corporate Income Tax.

Vietnam National University Press, Hanoi.

estimated at between 15.6 and 20.7 trillion VND each year during a 2013-17 period, equivalent to 7.5-9.9% of CIT revenue.<sup>7</sup>



Note: Country (year of data)

Sources: CR11 2020 extracts data from multiple sources, see more at *Methodology Note*

- Tax Collection (3<sup>rd</sup> in ASEAN, 42<sup>nd</sup> globally). Viet Nam's tax collection is reasonably good, coming behind only Singapore and Thailand. This is largely due to very strong VAT collection, whereas corporate and especially personal income tax collection as measured by "productivity" is low, partly due to large income tax exemptions for companies and deductions for individuals. In addition, there is a low rate of corporate income tax. These made the tax revenue ratio at only around 19% of GDP in 2018, much lower than the 25% average collection rate for similar LMICs.
- Impact of Taxes on Inequality. Viet Nam once again does well in the region (1<sup>st</sup>), slightly ahead of Indonesia, but only 53<sup>rd</sup> globally. The impact of its tax policy on inequality (-0.0016) is only 1/20<sup>th</sup> as big as the impact of spending in terms of absolute magnitude, showing that there is a lot of scope to increase tax policy impact by increasing CIT rates, making VAT more progressive and collecting more income tax.

### 2.3. Labour Policy

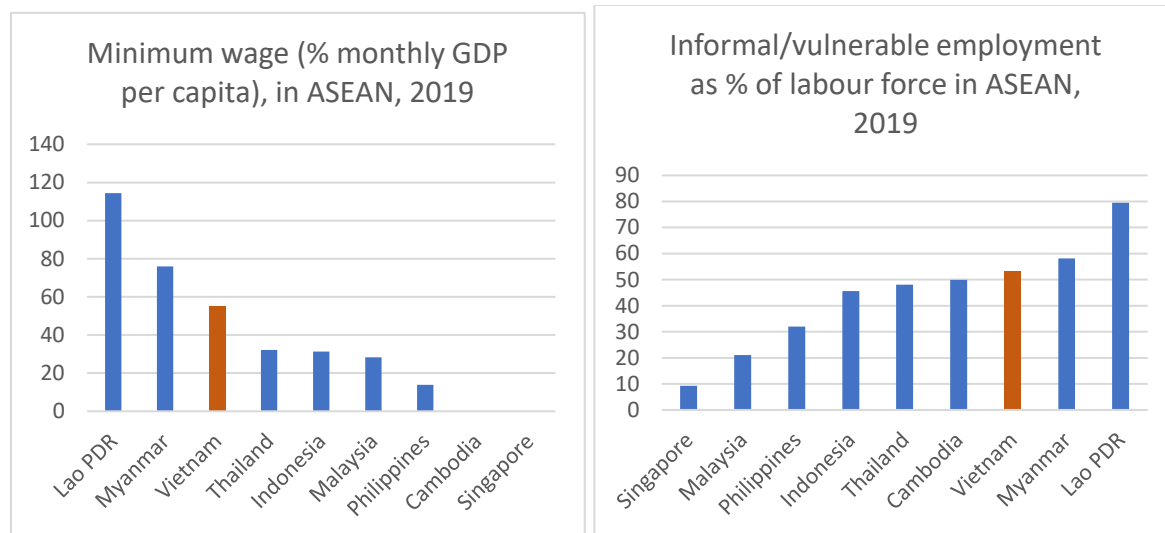
- Overall, Vietnam does moderately low on labour policy compared to ASEAN (8<sup>th</sup>), but poorly compared to the rest of the world (119<sup>th</sup>). This is mainly due to its ban on independent workers' representative organizations, and to the high proportion of its population in vulnerable employment. On the other hand, it does relatively well on minimum wages and women's rights.

Labour Rights: Viet Nam currently scores equal bottom on this indicator because it does not permit workers to organise unions independently. Its adoption of laws implementing the ILO conventions to permit independent unions should allow its score to improve sharply in future, to 3<sup>rd</sup> in ASEAN. However, Vietnam's very low score did not reflect the recent development allowing the establishment of workers' representative organizations. This positive legislative change is one of

<sup>7</sup> VATJ (2020). Tax avoidance and evasion: The case of Corporate Income Tax.

the terms of the recently negotiated EU-Vietnam Free Trade Agreement and will come into force in 2021.

- **Women’s Labour Rights:** Viet Nam is the best performer in the ASEAN region on this indicator, and 79<sup>th</sup> globally. It scores especially highly because it provides 180 days of parental leave, 60 days more than any other country in the region, fair wage, and non-discrimination to women in recruitment policies. But this is offset by the fact that its anti-rape legislation does not specifically tackle marital rape.
- **Minimum Wage:** Its minimum wage is third highest in ASEAN and 46<sup>th</sup> globally as a % of per capita GDP. However, it remains behind Lao and Myanmar, and is rising slower than GDP, gradually reducing labour’s share of GDP.



Sources: CRII 2020 extracts data from multiple sources, see more at *Methodology Note*

- **Coverage of Workers Rights.** Only 45% of the workforce receive these rights, because almost 2% are unemployed, and 53% are in “vulnerable” employment i.e. without any labour contract. This is the third lowest share of workers with rights in the ASEAN region, reflecting the large informal and self- or family-employed community.
- **Inequality of Wages.** Vietnam has the fourth most unequal wages in ASEAN, with a wage Gini coefficient of 0.5, way above its overall Gini inequality coefficient. This underlines the need to increase the minimum wage further. Vietnamese women earn 33% less on average than their male counterparts in all fields.

### 3) POLICY SUGGESTIONS

In light of these findings, Viet Nam is to be congratulated on its recent progress in several areas of policy to fight inequality, especially health and social protection spending, high levels of tax productivity, and promoting women’s labour rights.

Nevertheless, the findings also show the need to reinforce Vietnamese people-centred policies to fight inequality in the following ways:

Public Services

- Increasing education spending to the global Education For All target of 6% of GDP, and using this extra money above all to raise secondary school completion by the poorest to 100% by 2030.
- Continuing to increase health spending, in order to make sure that it reaches 100% universal health coverage and eliminates catastrophic out of pocket health spending<sup>8</sup> for the poor.
- Increasing social protection spending to reach universal coverage by 2030, not just of pensions but throughout people's lives (for children, the disabled, the unemployed and other vulnerable groups).

#### Tax

- Increasing its corporate income tax rate as soon as possible to 25%, more in line with global and regional averages.
- Increasing tax revenue by around 6% of GDP to 25% by 2030, particularly relating to property tax and CIT, at least in order to match the average of lower middle-income countries.
- Apart from increasing the CIT rate and reducing profit-based corporate tax incentives like tax holidays and tax preferences, other measures Vietnam could take to increase revenue are to:
  - renegotiate tax treaties (e.g. with Singapore) which deprive it of revenue;
  - ensure all "official" donors and lenders pay taxes on their projects;
  - renegotiate contracts with extractive sector companies; and
  - encourage ASEAN countries to agree a regional tax harmonisation framework which sets minimum rates to prevent future cuts (as has already been done successfully in the WAEMU region in Africa).
- Vietnam could also take more steps to tax wealth including raising the taxes on financial transactions, inheritance and gifts, and capital gains.

#### Labour rights

- Taking progressive towards universal social protection coverage and access, especially workers in informal and vulnerable employment. Priority is given to mobilise public fiscal space to fund ILO Social Protection Floor.
- Moving ahead as fast as possible with its adoption of laws allowing independent workers' representative organizations in accordance with ILO conventions. Promoting and monitoring practical implementation of newly ratified ILO C98 on effective collective bargaining.
- Improving its labour law in order to close the gender pay gap between women and men.
- Increasing its minimum wage to living wage, as a result of transparent and consultative calculation. Promoting collective bargaining on wages and strengthen negotiation capacity of workers' organisations.

Finally, it would be highly desirable for Viet Nam to include a major section on the measures it intends to take to reduce inequality and achieve SDG10 in its next national development plan. This links to the idea of a human, people centred economy, one that is inclusive of all parts of the population, particularly the most vulnerable groups. One that cares for ordinary citizens, and puts people and planet before profits. In addition, Viet Nam might wish to join the group of progressive governments which has been established to spearhead effective progress on SDG 10.<sup>9</sup>

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<sup>8</sup> According to the World Health Organization, expenditure as being catastrophic if a household's financial contributions to the health system exceed 40% of income remaining after subsistence needs have been met.

<sup>9</sup> For more details, see

<https://www.sdg16.plus/inequality#:~:text=The%20Pathfinders%E2%80%99%20Grand%20Challenge%20on%20Inequality%20and%20Exclusion,and%20inclusive%20societies%20in%20the%20Sustainable%20Development%20Goals.>