

SOCIAL BENEFITS AND INCOME INEQUALITY IN POST-SOCIALIST CHINA AND VIETNAM

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INTRODUCTION

China and Vietnam share a border and much socialist ideology. During the past quarter century, they have both adopted pro-market economic reforms, resulting in a combination of rapid economic growth and significant poverty reduction. With an average annual gross domestic product (GDP) growth rate of 9.7 percent since 1980, China "has had the largest and fastest poverty reduction in history" (World Bank 2008, 22). The World Bank estimates that the poverty rate in China fell from 64 percent in 1981 to 7 percent in 2007, using a "cost of basic needs" poverty line (World Bank 2008). Vietnam has also made remarkable progress since its economic reform was launched in 1986. Its annual GDP growth rate averaged 7.4 percent since 1988 and remained above 8 percent since 2005. The poverty rate in Vietnam fell from 53 percent in 1993 to 16 percent in 2006, using consistent "cost of basic needs" measures derived by the World Bank. As two of the world's most successful transition economies, China and Vietnam continue to emphasize economic growth over other developmental goals.

Despite many similarities, China and Vietnam have very different levels of economic and social development. People in China enjoy a much higher level of real standard of living than those in Vietnam. Using the 2005 Purchasing Power Parity (PPP) developed by the World Bank (World Bank 2008), per capita GDP in China was US\$6,100 in 2008, compared to US\$2,900 in Vietnam (U.S. Central Intelligence Agency [CIA] 2009). At the same time, income inequality is more prominent in China than in Vietnam. In 2004, the lowest income decile

households in China accounted for only 1.6 percent of total income, while the top decile commanded 34.9 percent of total income. In contrast, these figures were 2.9 percent and 28.9 percent, respectively, in Vietnam (CIA 2009).

Another important difference between the two countries has been their commitment to and development of social benefits. While China's rapid economic growth has been accompanied by cutbacks in its urban social benefit system (Gao 2006, 2008, 2010), rising income inequality and emerging social problems call for broader and stronger social protection (Gao and Riskin 2009). Vietnam took core decisions on economic reform later than China and thus can learn from the social and political problems that China's rapid growth generated. Indeed, policymakers in Vietnam have explicitly aimed to link growth with equalizing policies to avoid some of the severe urban-rural disparities and other forms of inequality that have developed during China's economic expansion (Evans and Harkness 2008). In a conceptual analysis of the welfare regimes of China and Vietnam, London (2013, chapter 2 of this volume) concludes that social policies and welfare in both countries are subordinate to economic development policies, despite commitments from the governments of both countries to universalism.

To provide empirical evidence on social welfare developments in the two countries and to draw implications for ongoing policy changes, this chapter compares the size and structure of social benefits in China and Vietnam in the early 2000s using national household survey data. It also examines the impact of social benefits on income inequality during the study period and contrasts the urban and rural systems within and between the two countries. The analysis reported here provides a valuable snapshot of social welfare outcomes in the two countries following the critical 1990s period of policy reform (in Vietnam) and policy consolidation and maturation (in China) and before the onslaught of global economic and financial crisis in 2007.

The social benefit system refers to social welfare provisions to support or improve the well-being of individuals and families. In this chapter, we examine the social benefit package that families receive, including cash transfers and in-kind benefits. Cash transfers include pensions, work-related social insurance, unemployment insurance, and public assistance. In-kind benefits include health and education benefits. Housing and food, two other forms of important in-kind benefits, are not included in our empirical analyses due to the lack of comparable data between the two countries. The inclusion of the various benefits examined here enables us to provide a comprehensive examination and comparison of the social benefit systems in the two countries.

The analysis reported here finds that the size of China's social benefit system—as measured by the share of social benefit income in total household income—was more than twice that of Vietnam; in both countries, benefits were distributed in a regressive manner; and the Vietnamese system was less regressive than the Chinese system. Pensions and social welfare transfers were more prominent in Vietnam, while education benefits were more generous in China.

The urban-rural gap in social benefit provision was much wider in China than in Vietnam: Chinese urban residents enjoyed significantly more benefits than their rural peers, while Vietnamese urban residents had only a modest advantage over their rural peers. Based on these comparative analyses, implications for social policy developments in both countries are discussed.

SOCIAL BENEFIT SYSTEMS IN CHINA AND VIETNAM: AN OVERVIEW

The Chinese Social Benefit System

Because social benefit provision mechanisms are embedded in the fundamental structural distinctions between urban and rural China, they differ substantially across the two areas. The urban social benefit system has undergone significant cutbacks from the comprehensive coverage and generous provision that characterized it before the economic reforms, while the rural social benefit system has remained minimal (Gao 2006, 2008, 2010; Gao and Riskin 2009).

The urban social benefit system was an inherent part of the "full employment" policy in urban China before the economic reforms were launched in the late 1970s. Under the pre-reform regime, almost all working-age urban residents were employed in state-owned or collective enterprises and received various social benefits through their work units (Davis 1989; Guan 2000; Saunders and Shang 2001; Wong 1998). These social benefits have been much curtailed since the economic reforms, mainly to facilitate market restructuring and stimulate economic growth (Croll 1999; Gao 2006; Leung 2003).

The reforms of the urban social benefit system have focused on shifting the financing of social benefits from state-owned and collective enterprises to general taxes and individuals so that the enterprises can concentrate on increased production and efficiency. Housing, which was widely provided at low or no cost before the reforms, has been privatized. Food assistance, a major benefit to urban residents during the pre-reform period, has vanished. Pensions, health benefits, and other work-related social insurance (such as maternity, sickness, and industrial injury) have begun to require individual contributions and have shifted to a wider risk pooling scheme across enterprises. Meanwhile, however, the government has taken a larger and more direct role in providing a safety net for the very poor. Unemployment insurance and Minimum Livelihood Guarantee (MLG, or *dibao*), the major public assistance program, have been established and enforced since the early to mid-1990s to meet the basic needs of many who have been left behind by both the economic and welfare reforms (Gao 2006, 2010; Li and Piachaud 2004; Solinger 2002; Tang, Sha, and Ren 2003).

Rural social benefits have always been marginal in coverage and minimal in provision, before and since the economic reforms (Gao 2008, 2010; Gao and Riskin 2009; Guan 2000; Saunders and Shang 2001). Only about 1.5 percent

of rural residents have had access to pensions due to their prior employment in state-owned or collective enterprises. Traditionally, there have been three safety-net programs in rural China. The "Five Guarantees" program has existed to provide for the rural elderly, disabled, and minors who had no family support or income sources to meet five basic needs: food, clothing, medical care, housing, and burial expenses. This system, however, has not served the target population in most rural areas sufficiently (Cook 2001; Davis 1989). Two other public assistance programs—the natural disaster relief system and the collective welfare fund—have also been in place, aiming to protect the vulnerable from natural disasters and human misfortunes (Guan 2000; Saunders and Shang 2001; Zhu 2002).

Building on expansions of the urban MLG and in an effort to address the inadequacy of the existing public assistance programs, the rural MLG was established nationwide in 2007 after a series of provincial experiments. The rural MLG aims to provide cash subsidies to poor families so that they can meet basic local living standards. The majority of the recipients have low incomes because of chronic illness, disability, old age, and/or an adverse natural living environment. The total number of rural MLG recipients more than doubled from 16.1 million in January 2007 to 38.8 million in October 2008 (Ministry of Civil Affairs [MCA] 2008).

Before the economic reforms, the Rural Cooperative Medical System (RCMS) provided basic health services and wide coverage to rural residents. It was financed by three sources: (1) premiums deducted from rural families' annual incomes, usually set at a small proportion of income, ranging from 0.5 to 5 percent; (2) a portion of the collective welfare fund contributed by collective agricultural production or rural enterprises; and sometimes (3) subsidies from higher level governments, which were mainly used to compensate health care workers and purchase medical equipment. However, this system collapsed after the economic reforms were launched, leaving many rural residents unable to afford the dramatically increasing health care expenses (Bloom and Fang 2003; Liu 2004; Rösner 2004). To address this gap, the government has gradually restored the RCMS since the mid-1990s, renaming it NRCMS (New Rural Cooperative Medical Scheme) and implementing it nationwide in 2008. The NRCMS is a heavily subsidized voluntary health insurance program for rural residents. The government—central and local—is responsible for about 80 percent of NRCMS expenditures. The central government provides subsidies to the less developed provinces in the western and central areas. In 2008, the government contributed 80 yuan for each participant, whereas individuals contributed 20 yuan. Although the coverage is 100 percent in principle, it is important to note that actual beneficiaries were only about 30 percent of all rural residents in 2007. The low take-up rate was due to the insufficiency of funds to cover all those in need, on the one hand, and the low efficiency in expense reimbursement, on the other (Gao 2010; Mao 2008).

The Vietnamese Social Benefit System

Although a stated goal of the current Vietnamese government has been to achieve universality, the term "universal" bears a very different meaning from that used in current European discussions, in which the term denotes forms of benefits that are provided based on certain circumstances with no test of income. Universalism in Vietnam refers to a wide and sometimes confusing range of provisions. The role of contributory social security is central, but the coverage from such provisions is only about one-third of all working people, even with a rapidly expanding, urban-based, formally employed workforce. The liabilities carried over from the socialist era are huge. The cadres who were employed in government and state-owned enterprises have fully protected pension rights under the current contributory system based on their previous employment—for which there are no contributory records. This results in a large expenditure on pensions directly from the state budget. The cohorts of formally employed workers have contributory protection for maternity, sickness, industrial injury, and health insurance under a separate scheme. Access to contributory pensions through voluntary social insurance has expanded greatly since 2004 and represents one element of the "universal" approach (World Bank 2007).

The health insurance system to assist in access to health care has developed alongside the process of health finance reform that saw the introduction of user-charges, purchaser-provider finance models, and some privatization of hospital services, all of which was termed "socialization." The universal approach for health care first provides automatic free access to health care services for all children aged five and younger, those who qualify for war disablement and survivors benefits, and the very few who receive the basic social assistance safety net (World Bank 2007; Evans et al. 2007). Voluntary health insurance was introduced initially for all schoolchildren (although the mixture of commune-level charges and obligations makes it difficult to describe this system as "voluntary" in practice) and then was extended to the remainder of the population. Uptake of voluntary health insurance has been high but has suffered from adverse selection, with the elderly and those with high medical needs often most likely to join the program, with their contributions paid by younger and fitter family members. The combination of eroding socialist universal provision of primary health care and the selective uptake of health care by those with insurance coverage has led to a crisis in health insurance funds and health care finance.

Non-contributory transfers exist for two main groups. First, war veterans, the disabled, and survivors of those killed in the long wars of independence receive a mix of cash transfers and benefits in kind (such as housing support and health care). Members of this group are largely older persons and form a cohort who will die off over the next decade or more. However, there is also a younger cohort, the members of which have suffered from congenital handicaps as a result of dioxin (Agent Orange) exposure associated with U.S. munitions and stores from the 1970s. The second group receives a small range of categorical, means-tested

social assistance benefits. Eligibility criteria for this group include being disabled, orphaned, or suffering from HIV/AIDS and having income below the official poverty line.

Additionally, Vietnam provides cash transfers to offset the impact of user charges for health care and education for some low income groups, such as poor elderly people, and those living in geographically remote areas with poor infrastructure and high numbers of disadvantaged ethnic minority groups. These transfers, particularly transfers that help with health care costs, are very important in areas of the country where coverage by social insurance pensions are low. Indeed, in areas such as the Mekong Delta and other regions of South Vietnam, such transfers make up the largest element of the social protection package (Evans et al. 2007).

DATA AND METHODS

Data

We use two national household survey data sets to conduct the analyses: the China Household Income Project 2002 survey (CHIP) and the Vietnam Household Living Standards 2004 Survey (VHLSS). CHIP is a national, cross-sectional study designed by a team of Chinese and Western scholars and conducted by the Institute of Economics at the Chinese Academy of Social Sciences. Thus far, three waves of data have been collected, in 1988, 1995, and 2002. Samples of the CHIP study were drawn from larger National Bureau of Statistics samples using a multistage, stratified probability sampling method. With sample provinces from eastern, central, and western regions of China, the CHIP study is nationally representative and arguably the best publicly available data source on Chinese household income and expenditures (Gustafsson, Li, and Sicular 2008; Khan and Riskin 2005; Riskin, Zhao, and Li 2001). The 2002 CHIP urban surveys contain 6,835 households or 20,632 individuals, while the rural surveys include 9,200 households or 37,968 individuals.

VHLSS is carried out by the Vietnam General Statistical Office and collects data on living conditions in households across Vietnam. The 2004 survey is the second of a planned biannual survey project spanning 2002 to 2010. The VHLSS sample households were randomly selected from a commune register, including representative samples of communes from all provinces and regions. The effective sample size for VHLSS 2004 survey is 9,140 households containing 40,359 individuals (Evans et al. 2007).

Measures and Methods

We adopt a comprehensive measure of total household per capita income, which includes market income, cash and in-kind social benefits, and private transfers. Market income includes the sum of individual earnings from waged employment

and all other income sources from the market, such as income from private enterprises, property income, and income from family farming and non-farm activities. Tax payments and any social security contributions are deducted.

Social benefits are composed of cash transfers and in-kind benefits. Cash transfers include social insurance and social welfare income, while in-kind benefits include education and health. Education benefits were not directly asked about in the CHIP surveys. We impute households' education benefits in China by assigning the average government per capita spending on education for students enrolled in schools when surveyed. Such imputations are done by education level (i.e., elementary, junior high, and senior high schools, respectively) and by urban and rural areas. The imputations are only our first approximations and fall short in two dimensions. In the aggregate they equal only about half the officially reported totals. Furthermore, because we assume that benefits are distributed on a mean per capita government spending basis, we likely underestimate inequality of the distribution of education benefits in China. Education benefits surveyed in VHLSS included government supports on tuition fees, school materials, and scholarships. Public schooling benefits in Vietnam are not imputed due to lack of reliable administrative data. Thus the value of education benefits is severely understated in Vietnam. But because education benefits are more equally distributed in both countries than other social welfare benefits, and (more importantly) far more underreported in Vietnam than China, we are relatively confident that their full inclusion in both countries would only strengthen our central conclusion that benefits are less regressively distributed in Vietnam than in China. Health benefits were asked about directly in CHIP, measured as the health care expenses covered by the government and employers plus self-estimated market value of health care services. Health benefits in VHLSS were measured by the government transfers to offset user charges for health services. Two other types of important in-kind benefits—housing and food—were surveyed in CHIP but not in VHLSS. Based on calculation using CHIP data, in 2002, housing benefit made up 1.6 percent and food assistance made up 0.3 percent of total household income for Chinese families on average. We do not have reliable Vietnamese administrative data to simulate these benefits; therefore they are excluded from this study.

Expenditures on cash transfers, health, and education, and total social welfare expenditures as a percentage of GDP in 1998 as reported by the International Monetary Fund (IMF) and World Bank are presented in the top panel of Table 3.1 for both China and Vietnam. Not surprisingly, in view of China's per capita GDP being twice that of Vietnam, China devoted nearly one and a half times as much of its GDP to social welfare expenditures as Vietnam—9.87 percent as compared to 6.78 percent. As shown in the bottom panel of Table 3.1, in both countries, education accounted for 40 percent of total social welfare spending in 1998. In China, cash transfers also accounted for 40 percent of total spending, while for Vietnam the figure was only 30

Table 3.1. Social Welfare Expenditures as a Percentage of GDP and Proportions of Social Security, Health, and Education in Total Social Welfare Expenditure (%)

	Social Security	Health	Education	Total
Social Welfare Expenditures as a Percentage of GDP using IMF and World Bank 1998 data*				
China	4.00	1.87	4.00	9.87
Vietnam	2.00	2.00	2.78	6.78
Proportions of Social Security, Health, and Education in Total Social Welfare Expenditure				
China				
IMF and World Bank 1998 data	40	20	40	100
CHIP 2002 survey data	53	23	24	100
Vietnam				
IMF and World Bank 1998 data	30	30	40	100
VHLSS 2004 survey data	73	23	5	100

* Source: Authors' calculations based on social welfare expenditure data taken from IMF Government Finance Statistics Yearbook (1998) and GDP data taken from the World Bank World Development Indicators.

percent. Vietnam spent 30 percent of the total on health as compared to only 20 percent for China.

The bottom panel of the table also compares the composition of social welfare expenditures for both countries as reported in official aggregate data (i.e., IMF and World Bank 1998 data) with the composition reported in our two micro data sets. Though there are many reasons for the official aggregate data to differ from the survey data—the years are not the same, cash benefits are typically underreported in surveys, the value of public education benefits is neither reported nor simulated in Vietnam—the comparisons are still useful. In China, the proportion of education benefits as reported in the micro data is too low compared to the official data. This is because our estimates of education only include education expenditures from elementary school to high school, while the official data also include expenditures on early childhood education, higher education, and other education expenditures such as technical schools and continuing education. The discrepancy between official and survey data in education in Vietnam is even larger. Only 5 percent of total benefits analyzed in the Vietnam survey data are education benefits, despite the fact that 40 percent of total welfare benefits in the country are devoted to education. Again, this is because public schooling education benefits are not reported in the Vietnam survey data.

The major task of this study is to compare the impacts of the social benefit systems on income inequality within China and Vietnam. As an explicit redistributive mechanism, the social benefit system reallocates resources to improve the economic well-being of certain subgroups, as well as for the purpose of overall social justice. We compare the allocation of social benefits—both total and specific—across income quintiles of China and Vietnam. The higher the proportion

of social benefits received by lower income quintiles, the more progressive the social benefit system. We further examine whether and to what extent the income redistribution through social benefit transfers raised or reduced overall income inequality. This is achieved by comparing pre- and post-transfer income inequality levels. Four different inequality measures are used to capture the impacts of social benefits on income inequality. First, we use the Gini coefficient, which reflects overall income distribution and is the most widely used measure of inequality. Second, we use the ratio of incomes of those at the 90th and 10th percentiles (hereafter P90/P10 ratio) to show the relative income distance between the top and bottom of the income distribution. Third, to reveal whether social benefits affect the top and bottom of the income distribution differently, we adopt two additional inequality measures: the ratio of incomes of the 90th to 50th percentile (hereafter P90/P50 ratio), which measures the top of the distribution, and the ratio of incomes of the 50th to 10th percentile (hereafter P50/P10 ratio), which measures the bottom of the distribution (Garfinkel, Rainwater, and Smeeding 2006).

SIZE OF SOCIAL BENEFITS AND URBAN-RURAL CONTRAST

Measured by the share of social benefits in total household income, the size of China's social benefit system was much larger than that of Vietnam. As shown in Table 3.2, in 2002, social benefits made up 19 percent of total household income in China. Note that this figure is much higher than the proportion of total welfare transfers as a percentage of GDP presented in Table 3.1 (9.87 percent). The major reason for this difference, we believe, is that in China a large proportion of taxes are on production and do not therefore get reported as personal income. It is also possible that incomes are underreported. By way of contrast, in 2004, social benefits on average were only 4 percent of Vietnamese families' household income. If we are missing most of education, which is close to 3 percent, as shown in the official data in Table 3.1, the total social benefits add up to about 7 percent, which is consistent with the IMF and World Bank figures. Market income and private

Table 3.2. Composition of Household Income in China and Vietnam (%)

	China 2002			Vietnam 2004		
	National	Urban	Rural	National	Urban	Rural
Market Income	79.0	72.8	91.8	86.0	84.3	87.1
Social Benefits	19.2	25.6	6.0	4.3	4.8	4.0
Private Transfers	1.8	1.6	2.3	10.0	10.9	8.9
Total Household Income	100.0	100.0	100.0	100.0	100.0	100.0

transfers played different roles in China and Vietnam. Market income comprised a larger proportion of total household income in Vietnam (86 percent) than in China (79 percent). Private transfers were a much more significant component in Vietnam (10 percent of total household income) than in China (2 percent).

The urban-rural gap in social benefit provision was much wider in China than in Vietnam: Chinese urban residents enjoyed significantly more benefits than their rural peers, while Vietnamese urban residents had only modest advantage over their rural peers. In urban China, social benefits on average made up slightly more than a quarter of total household income. In contrast, the proportion of social benefits in total household income in rural China was only 6 percent. To further illustrate this huge urban-rural gap, Figure 3.1 contrasts the population shares and the proportions of total social benefits received by urban and rural households. In 2002, the rural population made up 61 percent of the national population, but enjoyed only 10 percent of total national social benefits. In Vietnam, the proportion of social benefits in total household income was similar in the two areas (i.e., 4.8 percent in urban areas and 4.0 percent in rural areas).

The roles of market income and private transfers were also different by urban and rural residency in both countries. As shown in Table 3.2, the share of market income in total household income was larger in rural areas than in urban areas in both countries. However, this difference is more prominent in China (91.8 percent in rural areas, relative to 72.8 percent in urban areas) than in Vietnam (87.1 percent in rural areas, relative to 84.3 percent in urban areas). The regional

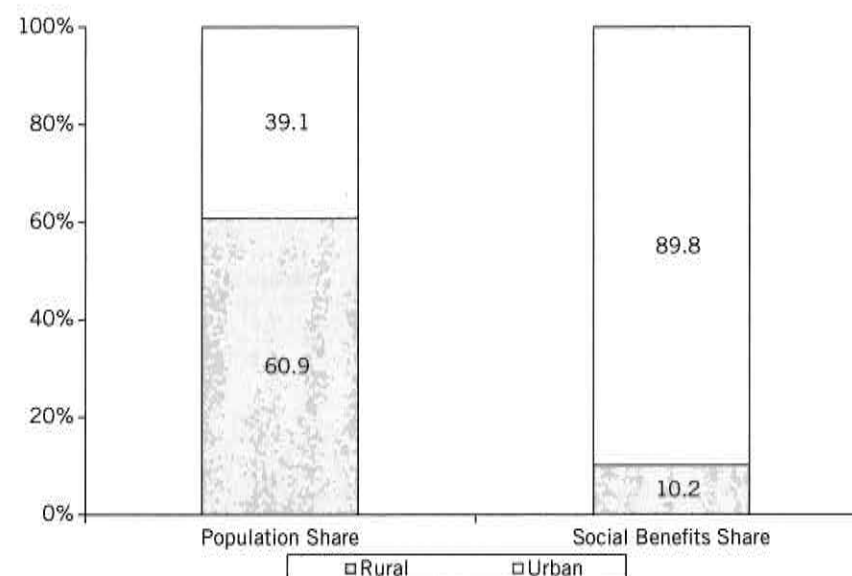


Figure 3.1. Contrast Between Population Share and Social Benefit Share in Urban versus Rural China

pattern for private transfers also differs across the two countries: in China, private transfers contributed more to total household income in rural areas (2.3 percent) than in urban areas (1.6 percent), while in Vietnam, private transfers played a larger role in urban areas (10.9 percent of total household income) than in rural areas (8.9 percent).

URBAN-RURAL DIFFERENCES IN SOCIAL BENEFIT STRUCTURE

The urban-rural difference in social benefit structure was also much sharper in China than in Vietnam, as is evident in Table 3.3. Nearly 60 percent of social benefits in urban China were from cash transfers, while the rural residents only had 6.7 percent of total social benefits in the form of cash transfers. More specifically, pensions were very generous in urban China, making up 53.9 percent of total social benefits, but they constituted only 6.2 percent of rural social benefits. Rural residents did not benefit from any work-related social insurance income, while urban residents had 3 percent of their social benefits from this source. Social welfare was also more generous in providing a safety net for the urban poor than for their rural peers, making up 1.7 percent of total urban social benefits and only 1 percent of total rural social benefits. Health benefits also favored the urban residents, providing slightly more than a quarter of total social benefits, while rural residents had only 0.5 percent of their social benefits from health care. Education was the predominant rural social benefit, accounting for more than 90 percent of total rural social benefits, relative to 15.7 percent in urban areas. However, it is important to remember that the size of the rural social benefit system was

Table 3.3. Composition of Social Benefits in China and Vietnam by Urban-Rural Residence (%)

	China 2002			Vietnam 2004		
	National	Urban	Rural	National	Urban	Rural
Cash Transfers	53.4	58.7	6.7	72.6	79.4	72.5
Social Insurance:	49.1	53.9	6.2	61.8	73.0	57.3
Pensions						
Social Insurance:	2.7	3.0	0.0	1.6	2.0	1.4
Work-related						
Social Welfare	1.6	1.7	1.0	9.2	4.4	13.8
In-kind Benefits	46.6	41.3	93.3	27.4	20.6	27.5
Education	23.5	15.7	92.8	4.8	3.2	4.9
Health	23.0	25.6	0.5	22.6	18.4	22.4
Total Social Benefits	100.0	100.0	100.0	100.0	100.0	100.0

much smaller than the urban one, as presented above, and thus the seemingly large 90 percent figure actually corresponds to only 5.6 percent of total rural household income.

The urban-rural disparity in social benefit structure was much smaller in Vietnam than in China. The majority of social benefits took the form of cash transfers in both urban and rural Vietnam, making up 79 percent and 73 percent of total social benefits, respectively. Among cash transfers, pensions dominated in both urban and rural areas, representing 73 percent and 57 percent of total social benefits, respectively. Notably, social welfare played a much larger role in rural Vietnam, making up 14 percent of total social benefits, relative to only 4 percent in urban areas. Health benefits were the major in-kind transfers, making up 18 percent and 25 percent of total social benefits in respective urban and rural areas. Education benefits were marginal in both areas, accounting for 3 percent of total urban social benefits and 5 percent of total rural social benefits.

DISTRIBUTION OF SOCIAL BENEFITS: PROGRESSIVE OR REGRESSIVE?

Overall, the social benefit systems in China and Vietnam were both regressive, as measured by the shares of total social benefits received by income quintiles. However, the regressivity in China was much more severe than in Vietnam, as illustrated in Figure 3.2. In both countries, social benefits did not favor the poor and increasingly rewarded the higher income groups. In Vietnam, the poorest

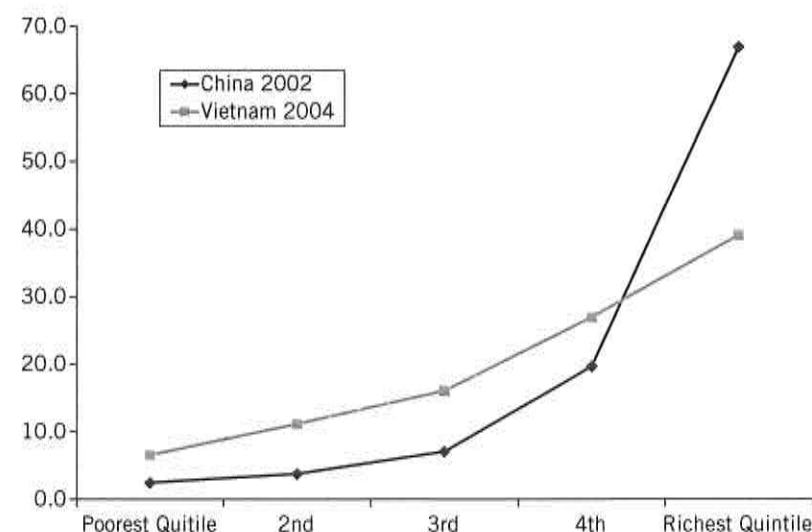


Figure 3.2. Shares of Social Benefits Received by Income Quintiles in China and Vietnam (%)

income quintile received 6.6 percent of all social benefits, while the top quintile received almost 40 percent. This gap between the rich and the poor was larger in China, where the lowest income quintile enjoyed 2.5 percent of all social benefits, while roughly two-thirds of all social benefits went to the richest income quintile.

The high regressivity of the Chinese social benefit system is driven by drastically uneven provisions in urban and rural benefits as well as the much more regressive distribution of urban social benefits compared to the rural system. Because the vast majority of social benefits (nearly 90 percent as shown in Figure 3.1) in China were received by urban residents and the overall income level of urban residents was more than three times that of rural residents, the higher income quintiles in China were predominately from urban areas and thus enjoyed much more social benefit than the lower income groups. Further, urban social benefits were distributed much more regressively than rural benefits based on results from the income quintile measures. The top income quintile in urban China received more than half of all urban social benefits, while the top income quintile in rural China enjoyed only 27.5 percent of all rural social benefits. In contrast, the urban-rural differences in social benefit provision and their distribution across income quintiles in Vietnam were much smaller, contributing to less severe regressivity in the Vietnamese social benefit system relative to the Chinese system.

Among social benefits, health assistance, work-related social insurance, and pensions were the most regressive, while social welfare was the least regressive in both countries. In China, as illustrated in Figure 3.3, the richest income quintile enjoyed 93 percent of all health benefits, 76 percent of all work-related social

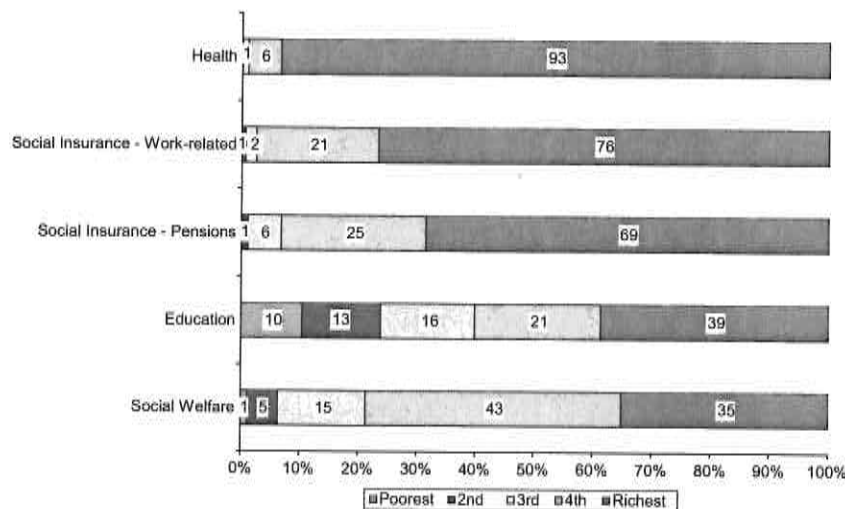


Figure 3.3. Quintile Shares of Social Benefit Programs in China in 2002

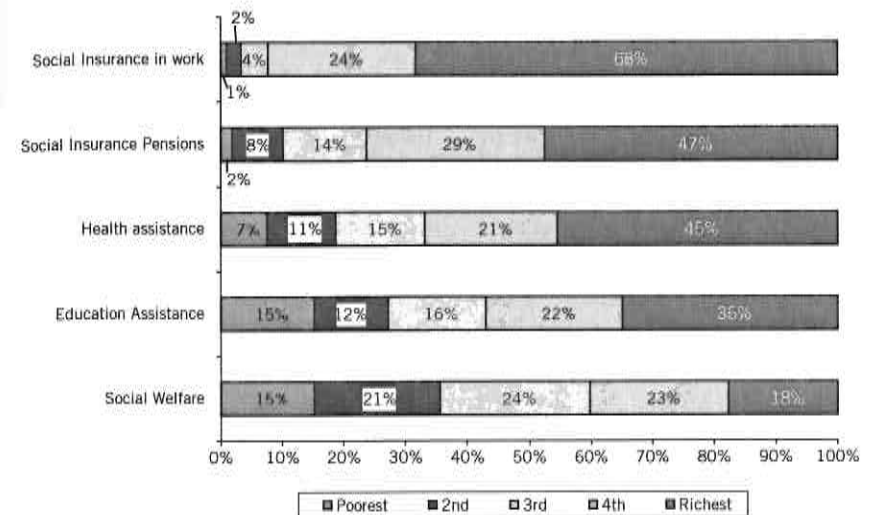


Figure 3.4. Quintile Shares of Social Benefit Programs in Vietnam in 2004

insurance, and 69 percent of all pensions. In Vietnam, as shown in Figure 3.4, the top income quintile received 68 percent of all work-related social insurance, 47 percent of total pensions, and 45 percent of all health benefits. Social welfare favored the lower income groups in both countries and particularly so in Vietnam, serving its safety net function. In China, education benefits were more progressive than social welfare, but still disproportionately favored the top two income quintiles. This is because the per capita education expenditures that we use to impute education benefits for China have huge gaps between the rural and urban areas, and urban children on average receive more years of education. As we discussed above, the higher income quintiles concentrate in the urban areas, and the lower income quintiles concentrate in rural areas.

How does the exclusion of education expenditures in Vietnam influence these results? In view of the fact that education benefits are one of the least regressively distributed benefits in China and that inequality in both market incomes and social benefits and between urban and rural residents is less in Vietnam than in China, we conclude that if we were to simulate public education benefits in Vietnam, they would further reduce the regressivity of benefits in Vietnam.

IMPACT OF SOCIAL BENEFITS ON INCOME INEQUALITY

Social benefits shaped overall income inequality differently in the two countries. In Vietnam, social benefits reduced overall income inequality, but the Chinese social benefit system increased overall income inequality. Not only is the distribution of social benefits more regressive than in Vietnam, but the distribution of

Table 3.4. Impact of Social Benefits on Income Inequality in China and Vietnam

	(a)	(b)	(c)	(d)	(c)-(b)
	Market Income	+ Private Transfers	+ Social Benefits	- Taxes	(b)
China 2002					
Overall Inequality					
Gini Coefficient	0.452	0.450	0.465	0.463	+3.1%
P90/P10 Ratio	8.265	8.271	8.489	8.448	+2.6%
Top of Distribution					
P90/P50 Ratio	3.176	3.156	3.252	3.199	+3.0%
Bottom of Distribution					
P50/P10 Ratio	2.604	2.618	2.611	2.639	-0.3%
Vietnam 2004					
Overall Inequality					
Gini Coefficient	0.409	0.408	0.401	0.401	-1.7%
P90/P10 Ratio	6.345	6.288	6.172	6.102	-1.8%
Top of Distribution					
P90/P50 Ratio	2.657	2.697	2.687	2.665	-0.4%
Bottom of Distribution					
P50/P10 Ratio	2.387	2.331	2.299	2.288	-1.4%

Chinese benefits is also more unequal than the market income distribution. Not only is the Vietnamese distribution of social benefits less regressive than that of China, but it also has an equalizing effect on incomes overall. This is because social benefits in Vietnam, though regressive, are less unequally distributed than market incomes. Table 3.4 presents the impact of social benefits on income inequality using the four inequality measures described earlier. Compared to the inequality level based on the income definition of market income plus private transfers, the inclusion of social benefits in China lifted the overall income inequality level to a Gini Coefficient of 0.465 (from 0.450), an increase of 3.1 percent, and a P90/P10 ratio of 8.489 (from 8.271), an increase of 2.6 percent. In contrast, the Vietnamese income inequality level was reduced to a Gini Coefficient of 0.401 (from 0.408), a decrease of 1.7 percent, and a P90/P10 ratio of 6.172 (from 6.288), a decrease of 1.8 percent, by social benefit transfers.

Did social benefits affect the top and the bottom of the income distributions differently? Social benefits in China enlarged the income inequality gap at the top of the income distribution (by 3 percent) but reduced income inequality at the bottom (by 0.3 percent). Therefore, the disequalizing impact of social benefits in China was largely driven by the favorable transfers to the richer income groups. The Vietnamese social benefit system, however, reduced income inequality at

both the top (by 0.4 percent) and the bottom (by 1.4 percent) of the income distribution.

SOCIAL BENEFITS FOR RURAL-TO-URBAN MIGRANTS

It is important to note that the above analyses exclude the migrants in both countries. Since the mid-1990s, rapid economic growth in both China and Vietnam has led to significant levels of migration, mainly from rural to urban areas. In China, the number of migrants jumped from 18 million in 1989 to 70 million in 1993 and to 150 million by 2004 (Liang 2001; Gao, Yang, and Li, 2012). Migrants now make up 11 percent of the national population and more than 20 percent of urban residents. However, migrants receive very limited social benefits. They usually do not qualify for rural benefits because they are of working age with earning capabilities. Meanwhile, they are not entitled to any urban social benefits due to the lack of registered local city resident status. CHIP contained a sub-survey of 2,000 migrant households (5,318 individuals). Results from the CHIP migrant data show that, in 2002, less than 5 percent of migrants received any pensions, unemployment insurance, or health benefits (Gao 2006). In fact, the taxes and fees that they paid exceeded the subsidies they received (Khan and Riskin 2005).

Vietnam has also had large and mostly unmeasured migration into urban areas. Current evidence from a range of surveys show inflows and outflows from selected urban and rural areas, respectively (GSO and UNFPA 2004; Le and Nguyen 1999), but the true extent of migration and reliable estimates of populations will only be apparent with the publication of the 2009 Census. The VHLSS sample was constructed using administrative commune-based records of registered households. Therefore, the "unregistered" households are missing from VHLSS. The growing migrant population in Vietnam are mostly "unofficial" and do not have official registration status in the destination communes. While registration is supposed to limit migration without official sanction, the actual effect is to establish significant populations that are extra-legally resident. A migration survey conducted in 2004 estimated that more than 50 percent of migrants living in rental houses are unregistered (GSO and UNFPA 2004). Furthermore, many migrants do not live in private households but rather in dormitories or other group residential accommodations, which are excluded from the survey. Similar to migrants in China, the lack of official registration status also prevents the Vietnamese migrants from access to government transfers and services.

Due to the lack of accurate estimation of the level of social benefits received by the Chinese and Vietnamese migrants, we can only speculate about what the national pictures would look like if migrants were to be included. Because most migrants are either ineligible for or not actual beneficiaries of social benefits, excluding migrants would most likely overestimate the generosity of total social

benefits. Because the average incomes of migrants remain much lower than those of urban residents, the regressivity of social benefits would most likely be underestimated when migrants are omitted from the data.

CONCLUSION AND DISCUSSION

Using national household survey data, this chapter has compared the size, structure, and progressivity of the social benefit systems in China and Vietnam and has examined their impacts on income inequality. It also has contrasted the urban and rural systems within and between the two countries. China's per capita GDP is twice that of Vietnam, and the proportion devoted to social welfare transfers is nearly one and a half times larger. Both countries devote about 40 percent of social spending to education. In both countries, social welfare benefits are distributed regressively, but the Vietnamese system was much less regressive than the Chinese system. The urban-rural gap in social benefit provision was much wider in China than in Vietnam: Chinese urban residents enjoyed significantly more benefits than their rural peers, while Vietnamese urban residents had only modest advantage over their rural peers.

Some common challenges emerge for both China and Vietnam to address in future social policy reforms. First and most important, the two systems are both quite regressive, favoring high income groups and ignoring low income groups through social benefit transfers. This pattern of regressivity diverges from these countries' socialist ideologies while also posing a possible obstacle to continued economic development. Recent policy trends in both countries suggest that the two governments indeed are moving their social policies toward a fairer and more just direction. Second, as mentioned earlier, both countries have increasing numbers of migrants who are much neglected by the current social benefit systems. This policy gap communicates a serious lack of respect for migrants' basic rights and may also become a source of social unrest. It is also promising that the Chinese government has made efforts to address this situation in recent years (Gao, Yang, and Li, 2012).

Based on the comparative results reported in this chapter, the two countries can learn from each other to enhance their future social policy developments. China can draw policy implications from the Vietnam case in two respects. First, the progressivity of the Chinese social benefit system can be improved, as the Vietnamese system demonstrates. As the Chinese government strives for a "Harmonious Society," a more equalizing distribution of resources is essential to provide some basic security to those left behind by both market developments and social policy changes. Greater equalization is also important for ensuring social stability and avoiding social unrest as China continues to prioritize economic growth among other developmental goals.

Second, China's huge urban-rural disparity needs to be addressed. Several recent government initiatives have begun to fill this gap. These include eliminating agricultural taxes, continuing the expansion of the NRCMS, providing free compulsory education to rural and migrant children, and expanding MLG and other public assistance programs to support the rural poor. The outcomes of these initiatives, especially their redistributive effects, require close observation and await evaluations.

The Vietnamese social benefit system can also draw lessons from the Chinese case in two regards. First, the overall size of Vietnam's social benefit system can be enlarged, especially as the government strives for "universal coverage." The current level of social benefit provision (i.e., only 4.3 percent in total household income) is much lower than the levels in most advanced industrialized countries (i.e., 20 percent or more). Second, education benefits appear to be very limited based on estimates in this study. This could be a reflection of actual provision, but could also be due to the estimation method used. Further research needs to achieve a clear and accurate estimation of this important benefit. If actual education benefits are at such a low level, the Vietnamese government needs to broaden its coverage and improve its benefit level, as education is the key to a nation's sustained prosperity.

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