

The Rural-Urban Gap in Vietnam: A Semi-Parametric Decomposition and Urban-Bias Policy Analysis

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Abstract

There was a significant widening of the rural-urban gap during the economic boom in Vietnam in the years 1993-1998. Using household survey data, we semi-parametrically decompose the gap into two factors: a characteristics gap and a return gap. The former is proposed by neo-classical economists who believe that rural-urban gaps reflect only the rural-urban differences in characteristics (e.g., education and training); the latter is proposed by institutional economists who believe that institutional factors such as union power, sticky industrial wages, and protected state-owned enterprises are the cause of such gaps. We find that the characteristics gap is the primary explanation for the widening gap in Vietnam from 1993 to 1998 while the return gap is the primary explanation for the increase in the gap at higher percentiles. We then argue that government investment policies and its manipulation of price incentives were the driving forces behind both of these results. In particular, we find that government policies created some benefit to urban dwellers, but the resulting loss to rural areas was much larger. Therefore, as a whole, the economy was worse off lending support to the Lipton urban-bias hypothesis which states that government, under strong political pressure from the urban population, directs resources from rural to urban areas and from agriculture to industry without consideration of efficiency or equity.