



Inflation and Macroeconomic Management

an interview with Vŭ Khoan

Editor's note: Vŭ Khoan (VK) was a former secretary of the VCP Central Committee of term IX, member of the VCP Central Executive Committee from terms VII to IX (1991-2006), Deputy PM (August 2002 to June 2006), Minister of Trade (2000-2002) and Standing Deputy Minister of Foreign Affairs (1990-1999). At present, he is the PM special envoy on foreign affairs. He has contributed a lot to economic and diplomatic affairs, and played a leading role in negotiation of the US-Vietnam BTA and Vietnam's accession to the WTO. EDR has talked to him about the inflation, macroeconomic management and economic growth – topical issues nowadays. The following is our interview with him.

EDR: The inflation in Vietnam is at an alarming level now. What are causes of this situation and measures to curb it, in your opinion?

VK: The inflation has many external and

internal causes. It's no denying the fact that prices of many essential goods on the world market have skyrocketed. The Vietnamese economy is so weak and depends a lot on imports, so it is certainly affected by price hikes.

In addition, it is a result of imbalances at the macroeconomic level in four aspects:

- Value of the money in circulation is bigger than the value of goods and services. In the past three years (2005-2007), increase in the money supply in three channels (credit, investment and issuing) was too big – up to 135% – while the GDP rose only by 27%, that is, a fivefold increase compared with the growth rate.

- Spending is much higher than production, that is, the demand exceeded the supply. In 2007, the GDP rose by 8.48% while the total retail sale (an index partly reflecting the national spending) rose by 23.3%, that is, the demand was four times higher than the supply.

- Public expenditure is higher than the budget income. The present budget deficit equals some 5.8% of the GDP while 5% is an alarming level according the international standard, not to

mention big public expenditures from other sources than the budget. Of the public expenditure, the public investment accounts for over 40% of the GDP but part of it was put in time-consuming, and even unproductive, projects.

- Trade gap is very huge. In 2007, the trade gap equaled 16% of the GDP while the alarming level, according to the international standard, varies between 5% and 10%. In early 2008, the trade gap was much higher. In addition, some necessary measures that were introduced at a period when the CPI was on the increase were like oil poured on the flames, such as wage rises before the Tết Holiday, or adjustments to fuel prices when the CPI was high. It's necessary to mention the fact that many businesspersons engaged in speculation, which made the inflation more serious.

Recently, the Government has introduced a package solution comprising eight measures to set things right. I think they are appropriate measures but they require time and good management to produce intended results.

EDR: *What do you think about the way the state controls and regulates the economy? How it affects the inflation and growth in Vietnam today?*

VK: The PM and many ministers have given their opinions, they have recently made reports to the NA Standing Commission and they will certainly give full explanation in the NA next session, and we can understand the policies better.

EDR: *Why are regional countries, such as Malaysia, the Philippines, Thailand and Singapore, free from effects of the inflation, price hikes and fluctuations in the stock markets like Vietnam? Do their governments have better experience of running the economy than the Vietnamese one?*

VK: All countries, including Vietnam, suffer effects caused by fluctuations on the world market. And to what extent these effects are depends on the development level of the economy. As for Vietnam, a country that suffers a constant trade gap, these effects are certainly heavier than the ones found in more developed countries.

In addition, Vietnam has just developed the market economy and tried to integrate into the world market, therefore its experience, ability to analyze information and make predictions, and

control the economy are limited, and as a result it meets with more difficulties than other countries do.

EDR: *When negotiating the accession to the WTO, is there any study of effects of the WTO membership on the government's macroeconomic management? What is your estimate of this matter?*

VK: Before the Vietnam's accession to the WTO, there were many studies of effects of this effort but we can't understand anything unless we start doing it.

During the negotiation of Vietnam's accession to the WTO, we stressed that it was only one of measures to develop the economy, not a magic wand that could solve all problems. On the other hand, it was not an agent that could cause trouble. Without joining this organization, Vietnam's economy still depends a lot on the world market and has no way to avoid external impacts. Whether Vietnam is an WTO member or not, it is forced to import fuel and face all effects when its price goes high on the world market.

EDR: *During the international integration, in your opinion, where did shortcomings in the Vietnamese economy show themselves and what are measures to deal with them in order to curb the inflation and promote economic growth?*

VK: Shortcomings of the economy exist outside our will, and they became clearer when Vietnam joined the WTO (it's wrong to think that they made appearance after Vietnam's accession to this organization). We have identified and tried to deal with them. The following are some of them:

- Law system is imperfect and sometimes inconsistent;
- Infrastructure, including control over the realty market, is poor, causing production cost to get higher and competitiveness much lower;
- Financial – monetary sector is not perfect and modern enough;
- Administrative machinery is not professional and clean;
- Education service fails to meet requirements posed by the economic growth and international integration.

These shortcomings limit the competitiveness of the country, of companies and their services and goods as well. By the way, I want to stress that we

are sometimes very hasty and anxious to set things right overnight but it is impossible (how can you jump over your head?). Developed countries spent hundreds of years to build the market economy without being isolated or placed under embargo while Vietnam has just developed the market economy for two decades and started integrating into the world market for some years, so it couldn't put its house in order within a short period.

EDR: *Economic growth can be examined quantitatively (namely, the growth rate) and qualitatively (efficiency and competitiveness). What are your estimates of the quality of Vietnam's economic growth after its accession to the WTO and what are measures to make the economic development sustainable and effective?*

VK: As we all know, the Vietnam's growth rate is high but the quality and efficiency of growth is poor. This reflects itself in many aspects, such as low productivity and efficiency of investment; high production cost and poor quality of goods and services; problematic quality of life, widening gap between the rich and the poor, and increasingly serious pollution, etc.

The problem is how to maintain a high growth rate because Vietnam's potentials for growth are still abundant, and to ensure the quality of growth. In other words, our future direction in the coming period should change from an 'as quickly and well as possible' to 'as well and quickly as possible' approach in which the emphasis is put on "quality."

Accession to the WTO offers us a chance to attract more and more foreign direct and indirect investment. In such a condition, we had better select projects that ensure high quality for economic growth and limit pollutants instead of getting as many FDI projects as possible. In addition, Vietnam should overcome the above-mentioned shortcomings, especially in development of human resource, because it is the decisive factor of a sustainable development.

EDR: *As a competent leader who has worked for years in diplomatic and economic affairs, you certainly have experience of linking the diplomatic and economic activities to build an image of Vietnam in the international community thereby making the economic growth more effective. Please tell us more about it.*

VK: I don't think I'm a competent leader, but after several decades working in the diplomatic affairs I see that to develop the economy as well and quickly as possible we have no choice but to make the best use of the strength of our times that reflect themselves in great trends in the world, along with national strength that shows itself in the widespread effort to get free from poverty and backwardness and close cooperation between ministries and governments of all levels. With this spirit in mind, the foreign affairs must be oriented towards the socioeconomic development, and in their turn, all ministries and industries must strive for cooperation with foreign partners.

As for the foreign affairs, the whole government, including authorities of all levels, should aim at such tasks as the following:

- Understanding and predicting exactly major trends of the world, including ones in the economic field, in order to get proactive in making policies, taking all opportunities and dealing successfully with all changes.
- Building an image of a politically stable, open, active and friendly to all partners; and improving basically the business climate.
- Carrying out actively trade, investment and tourism promotion campaigns.
- Protecting legitimate interests of Vietnamese citizens and companies.

EDR: *The international integration offers us both opportunities and challenges. In such a situation, what is your advice for EDR readers and students of the UEH in particular?*

VK: New situation and tasks require all of us to change our way of thinking and doing our businesses. As we usually hear, we must think globally and act locally, that is, we should grasp the major trends of the world and apply the best, the most refined, to our individual conditions. This requires us to improve our ability in all fields, from our stuff to knowledge, behavior and foreign language skills. It is what our generation wish for the younger one.

EDR: *Thank you for spending your precious time answering our interview. We wish you good health and better contribution to the national development ■*