

Panorama of the Economy in 2007 and Prospects in 2008

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In 2007, the Vietnamese economy faced many difficulties caused by natural disasters, widespread animal and plant diseases and unfavorable fluctuations in prices on the world market while advantages brought about by the accession to the WTO are not good enough. This situation produced bad effects on the economic growth.

1. Economic growth in 2007

a. Achievements: The growth rate in 2007 reached 8.44% - the highest level in the past 11 years - and helped Vietnam take the third rank among Asian countries (after China; 11.3% and India; some 9%) and the first among ASEAN nations. The agricultural sector rose by 3.0% compared with 3.32% in 2006; manufacturing and construction sector 10.38% compared with 10.4% in 2006; and the service sector 8.5% compared with 8.29% in 2006 (based on comparative price of 1994).

The structure of industry experienced positive changes. The share of the agricultural sector fell from 20.81% to under 20.0% while the manufacturing and construction sector from 41.56% to over 41.7% and the service sector from 38.08% to 38.3%. In 2007, the service sector grew strongly and stably, especially in transport, tourism, trade, and banking and finance when Vietnam became a WTO member.

High growth rates in the manufacturing and service sectors helped improved the national budget. The budget income reached VND287,900 billion compared with the set target of 281,900 billion. The budget expenditure equaled the planned target and the deficit equaled some 5% of the GDP.

The foreign investment reached a record level. Newly-invested capital and additional capital in 2007 rose to US\$20.3 billion; about 8.3 billion higher than the foreign investment in 2006 (some 12 billion). The newly invested capital reached US\$17 billion with some 1,500 projects: 63.7% of it was in the service sector; 35% in the manufacturing sector and 1.3% in the agriculture. These facts show that the FDI tended to move from the manufacturing to the service sector. The FDI also moved to poorer provinces in the North and Central Vietnam. In 2007, the FDI was put in 52 provinces. Provinces in the Central Vietnam attracted US\$3.3 billion worth of foreign investment. This figure equaled 264.5% of the amount attracted in 2006 and is nearly equal to the total of FDI in the past 18 years (US\$3.5 billion).



Photo by Huỳnh Thọ

Along with the FDI, immigrant remittance also rose high. According to a rough estimate, this source rose to some US\$8 billion in 2007 from 5.7 billion in 2006. It was used by their relatives to buy stock, real estate and other assets, and spend on festivals.

Indirect investment in the stock exchange in 2007 reached US\$5.3 billion while the ODA source reached US\$5.4 billion.

Export reached its record peak this year and gained very high growth rate. The export earnings in 2007 amounted to US\$48.4 billion increasing by 21.5% and equaled 15.5% of the planned target. In the earnings, the share of the foreign sector was 58% increasing by 18.4% (including crude oil, if it was put aside, the increase was 30.4%) while the share of the local sectors was 42% increasing by 22.3%. There were 10 exports that earned more than US\$1 billion, such as crude oil US\$8 billion; clothing 7.8 billion increasing by 31%; footwear 9.5%; seafood 11.9%; wooden products 23.7%; and electronic goods and computer 24.6%. Rice export earnings reached US\$1.5 billion increasing by 14% although the volume fell by 3.4%. Earnings from coffee rose by 72.7% and rubber by 5.3%.

As for tourism industry, Vietnam saw over 4.2 million foreign visitors in 2007. This figure rose by 19% compared with 2006 and it was the highest up to now.

In the manufacturing sector, the industrial output in 2007, based on 1994 comparative price) rose by 17.1% and this figure in the public industrial section was 10.4% (centrally-run section by 13.4% and locally-run section 3.5%); the foreign industrial section by 18.0% (crude oil and gas fell by 7.37% but

other industries rose by 23.1%); and non-public industrial sections by 20.9%. High increases were found in the output of machines (74.5%), air conditioner (56.9%), electric engine (26.2%), washing machine (24.7%), and electric fan (20.3%). Industrial centers didn't grow evenly: Hà Nội 19.9%, Vĩnh Phúc 41.8%, Hà Tây 24.9%, Bình Dương 24.6%, Đồng Nai 22.4% and Cần Thơ 17.3%.

In spite of many difficulties, the agriculture kept increasing. The value of total output in this sector rose by 4.6%: crop growing 2.8%, seafood 11%. The grain output was 39.9 million tones in 2007 (rice 35.59 million tonnes and corn 4.1 million tonnes). Meat output rose by some 4%, seafood output was 4.1 million tones rising by 11%. Number of families suffering shortage of food before harvest fell remarkably as compared with 2006. Export of rice met the planned target.

The per capita GDP in 2007 was US\$835 (US\$15 higher than the planned target). The foreign exchange reserve amounted to US\$20 billion. These achievements were also appreciated by foreign observers. Martin Rama from the WB noted that the FDI in Vietnam rose to a record level in terms of committed and realized capital, which showed that encouraging signs of the economic reform were attracting foreign investors. Foreign debts have been paid according to the plan and all debts were well under control while the stock exchange became stable.

b. Shortcomings: The CPI in December 2007 rose by 12.6% compared with December 2006. This is the highest hike in recent years, higher than the growth rate and much beyond the planned target. High hikes in 2007 were found in prices of restaurant service (18.9%); rice (15.4%); food (21.16%); housing and building materials (17.12%) household appliance and other services (9.02%); vehicles (7.27%); pharmaceuticals and health care service (7.05%); and clothing and footwear (6.7%). Market price rose by 13.29% in cities and 11.99% in rural areas.

Causes of high hikes in prices were numerous: rises in prices on the world market; widespread natural disasters and plant and animal diseases, etc. But subjective causes are very serious. According to the PM, the failure to control the monetary market made the CPI rise higher than the growth rate. A WB expert from the Netherlands working in Hà Nội thought that the money supply rose too high, the credit supply rose by 38% compared with the GDP growth rate of some 8%; and great increases in the money supply had led to some inflation although commercial banks had increased their reserves.

In 2007, the trade gap topped the US\$12-billion mark equaling 25% of the export earnings. The im-

port value was US\$57.7 billion increasing by 33% over last year. The causes were: increases in prices of raw materials on the world market and failure by the government and companies to control export and import. Import value rose much faster than export value. Predictions of market prices were not exact. Quality and competitiveness of exports were not high enough.

Many major projects were carried out slowly, especially ones run by Ministries of Communication and Public Works, and of Agriculture and Rural Development, because of difficulties in land clearance, rises in prices of building materials and slow fund disbursement.

Quality of development was not high. The industrial output rose but the added value rose slowly (10.4% compared with 17.1%) because the manufacturing sector depended too much on imported raw materials and its goods were not competitive enough. The rice was exported at higher prices and met the planned target but the supply suffered some shortage with the result that Vietnam had to buy some hundred thousands tonnes of rice from Cambodia at high prices and rice planters benefited almost nothing from the export earnings.

These shortcomings, however, were inevitable because of natural disasters and wide fluctuations on the world market. Generally, the Vietnamese economy still develops stably, the exchange rate was kept under control and the personal income rose by 5.8% compared with 2006.

2. Prospects in 2008

The National Assembly of the XII term has set the following economic targets for 2008: growth rate of 8.5% - 9.0%; increase in the CPI lower than the growth rate; gross investment equaling 42% of the GDP; a rise in export value of 20% - 22%. These targets are achievable although they are higher than 2006 ones because of the following grounds:

- The inner strength of the economy is improved when it gained high growth rate in 2007. The budget income and expenditure rose steadily and the size of the economy becomes bigger (some US\$71.3 billion).

- Many infrastructural projects are carried out and may come into operation in 2008. It's worth noting that part of the trade gap is from import of raw materials used for these projects.

- The gross investment for 2008 rises to some US\$38 billion because of increases in the FDI and ODA. Immigrant remittance amounted to some US\$8 billion and foreign indirect investment some US\$6 billion.

- It is the second year that Vietnam implements WTO commitments and its export market may cover some 150 markets belonging to this organization. ■