

An Overview of the Vietnamese Economy in 2004 and Its Prospects in 2005

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1. Vietnamese economy in 2004

In 2004, Vietnam faced many difficulties. At the beginning of the year, the bird flu spread over 57 out of 61 provinces causing great damage. The WB estimated that it could make the GDP reduce 1% in 2004. The weather was not favorable. Low temperature and heavy rain in the first half of the year destroyed several hundred thousands of hectares of rice in the North. Drought in Western Highlands and Central Vietnam showed no signs of decline up till now. In the fourth quarter, the Central Vietnam also suffered floods that damaged the infrastructure and crop yield.

In foreign markets, prices of steel, chemicals, fiber, fuel, fertilizer and many other goods rose high while those of farm products were not stable, which produced bad effects on production and export in Vietnam. However, Vietnam tried its best to gain a high growth rate and surpassed many targets planned for the whole economy.

The GDP was worth VND361,400 billion (1994 price) increasing by 7.6% compared with the planned target of 7.5%-8.0%. In the agriculture

rose by 3.3%, manufacturing and construction by 10.3% and service by 7.3%. The trend of growth was rather stable: the first quarter enjoyed a growth rate of 7%, the first half 7%, and the first three quarters 7.4%. The 2004 growth rate was the highest in the past seven years: 5.76% in 1998; 4.77% in 1999; 6.79% in 2000; 6.89% in 2001; 7.08% in 2002 and 7.26% in 2003. Facing many difficulties, the 2004 growth rate is an encouraging sign for Vietnam. It is even higher in the two biggest cities: HCMC by 11.4% and Hà Nội 11.12%.

The structure of industry also witnessed positive changes: the shares of the manufacturing and service sectors rose at the expense of the agricultural one.

Due to high growth rate, the budget income was 11.8% higher than the planned target and increased by 17% compared with 2003. The total domestic income reached VND129,400 billion, 18.9% higher than the planned target and increasing by 21.6%. All 64 tax agencies completed or surpassed the planned targets, 33 provinces obtained the tax take of over VND500 billion. The

budget expenditure was on the target while the public investment accounted for the best part and surpassed the target.

a. Agriculture:

The grain output reached a record peak: 39.1 million tons making an increase of 1.6 million tons over 2003, and surpassed the planned target. The rise in the food output was higher than the birth rate (1.4%) helping increase the per capita food output from 462.9 kg in 2003 to 476 kg in 2004.

In the rice production, the area tended to fall while the average yield and quality rose in an effort to be more competitive on both domestic and foreign markets. The rice area reduced from 7.45 million hectares in 2003 to 7.42 million hectares in 2004. Most of this amount is land in the Mekong Delta that is not suitable for rice growing and was used for raising fish or other crops. The average rice yield was 4.8 tons per hectare a crop; 1.6 ton higher than the yield in 2003. This higher yield helped increase the rice output from 34.5 million tons in 2003 to 35.7 million tons in 2004.

In leading rice producing provinces in the Mekong Delta, such as An Giang, Đồng Tháp, Vĩnh Long, Long An, Sóc Trăng, Cần Thơ and Tiền Giang, areas of high-quality rice increased remarkably. The movement to reduce the number of rice strains, use of fertilizer and insecticide helped cut the production cost, protect the soil and improve the quality of rice for export. In the winter-spring crop, there were 150,000 hectares of rice for export in the Mekong Delta.

Improvements in the quality and quantity of the rice output ensure the national food safety although the weather conditions are not favorable enough and reduce the pre-harvest shortage of food in Northern provinces. The number of families that suffer such shortage in 2004 fell by 35% while the export of rice rose to 3.9 million tons making Vietnam the world's second biggest exporter of rice (in 2003, Vietnam ranked third, after Thailand whose exported 6.4



million tons and India, 4.2 million tons.) Better quality allowed Vietnamese rice to gain higher prices, some US\$232 per ton instead of US\$188.2 in 2003. The value of rice export rose from US\$734 million to over 900 million.

In the production of food, the maize output tended to increase at the expense of the rice output although their absolute quantities are still on the increase. The maize area was 965,000 hectares and output 3,417,000 tons. Its share in the food output rose from 8.4% to 8.8% from the last year and it became the main source of raw materials for animal feed production.

Production of industrial crops, fruits and vegetables also developed. Peanut output rose by 13.7%, soybean by 5%, rubber 11.3%, tea 8.6%, coffee 4.8%, black pepper 7.6% and cashew nut 24%. In 2004, exported coffee volume reached 850,000 tons increasing by 10.7% while the cashew nut reached 104,000 tons rising by 39.7%.

Output of high-quality fruits rose remarkably, especially grapes, litchi, longan, Java apple and orange, etc. The fruit area reached some 800,000 hectares increasing by 3.6% and its output was 6 million tons. Their quality was also improved and many of them are saleable on both domestic and foreign markets. Earnings from the export of fruits last year topped US\$152-million mark.

Although the bird flu spread over the country in the first quarter, the animal husbandry business still gained a high growth rate. This business last year tended to be more market-oriented. The raising of cattle as pulling animals reduced while raising them for meat and milk developed. In 2004, the herd of cows rose to 4,907,000 head increasing by 11.6%, the herd of dairy cattle 98,000 head increasing by 20%. As for pig, there were 26.1 million head increasing by 5.6%. The pig meat output reached 2,504,000 tons increasing by 5.9%.

Many new strains of animal were also imported with the result that products from this business are more diverse while their quality was also improved. The share of the animal husbandry business in the agricultural output was 21.2% in 2004, slightly lower than its share in 2003.

In the forestry, the area afforested was 180,000 hectares. The wood output was 2,459,400 cubic meters increasing by 1% while the area destroyed by fire and cutting reduced by 26.8%.

The fishing output reached 3,089,000 tons increasing by 8.2% (from sea farming 1,167,000 tons with an increase of 16.9%; and from fishing 1,922,300 tons increasing by 3.5%). Shrimp and fish raising kept developing, which ensures the supply of raw materials for agro-industry. Earnings from the export of aquatic products reached US\$23.5 billion increasing by 6%.

The total value of the agricultural sector reached VND172,800 billion (1994 price) increasing by 5%, higher than the target of 4.6% set for the year. The highest growth rate was found in the fishing, 15.8% and the lowest was in the forestry, 0.8%.

The application of new technologies also appeared in this sector. In Hà Nội, HCMC and Đà Lạt, high-quality vegetables have been grown in greenhouses. Flowers for export were found in Vinh Phúc, Hà Nội and Lào Cai. Many new techniques were applied to fruit orchards in different provinces.

b. Industrial production

The industrial output in 2004 was worth VND354,000 billion (1994 price) increasing by 16%: the public sector by 11.4%; the private one 22.8% and the foreign one 15.7%. Main industries still maintained their output and high growth rates: coal 16%, crude oil 15%, natural gas 114%, processed aquatic product 16%, clothing 21.7%, paper 33.7%, fertilizer 28.5%, assembled motorbike 38.6%, bicycle 37.2%, medicine 20.9%, detergent 25.3%, tile 22.1%, TV 19.8%, etc. Cities and provinces that gained high industrial growth rates were Hà Nội, Hải Phòng, Quảng Ninh, Đà Nẵng, Khánh Hòa, Bình Dương, Đồng Nai and Cần Thơ.

Causes of the high growth rate in the industrial production were: the market demand rose, the competitiveness of many products was improved, many companies replaced their production lines and applied new techniques; and the Government adopted new policies to promote the export.

The gross investment also increased. The investment from the State equaled 104.5% of the planned target (from central government 107.8% and from provincial governments 101%).

The foreign investment started to rise again after many years of low growth rates. In 2004, Vietnam attracted US\$4.1 billion from foreign investors (2.3 billion of newly invested capital and 1.8 billion of additional capital), which was the highest level in the past five years. Some

60% of new FDI projects were in manufacturing and construction sector. Some 64.5% of foreign capital was put in Southern provinces and 35.5% in Northern ones. The most attractive provinces to foreign investors were Đồng Nai, Bình Dương, HCMC, Thái Nguyên, Hà Nội, Hải Phòng, and Quảng Ninh. Leading investing countries last year were Taiwan, South Korea, Japan, Canada, Singapore, China and Hong Kong.

In comparison with 2003, new investment rose fast. Particularly, the new capital added to existing projects reached the highest level as compared with the past few years. This is an encouraging sign that showed that the business climate in Vietnam has been improved remarkably and the foreign sector has made good profits. Other causes of this achievement were: the world economy started to recover; and the Vietnamese government adopted more progressive policies to encourage the foreign investment.

c. Service sector:

The total retail value rose by 18.7% (8.6% in public sector, 17.8% in personal sector, 22.7% in collective sector, 33% in private sector and 13.8% in foreign sector). If the inflation is not included, the growth rate will be 10.2% only. The growth rate of the trading was 19.8%; consumer service 15.9%, accommodation 11.3% and tourism 24%. The CPI was 9.4% compared with December 2003. This rate was higher than the planned target but it was kept under the two-digit level. This result was achieved because the Government took various measures to control the rises in prices in the second half of the year.

Export earnings in 2004 reached US\$26 billion increasing by 30% compared with 2003. This was the most remarkable achievement of the Vietnamese economy that marked the success of the second year Vietnam carried out the CEPT/AFTA agreements. Exports that earned more than US\$2 billion all gained high growth rates: crude oil 53%, clothing 19.6%, and footwear 17.3%. Some others with lower earnings (under US\$1 billion) also gained high growth rates: electronic appliances 55.6%, wooden furniture 87% and rice 22%. Export of many farm products rose high: coffee 33.4%, rubber 35%, tea 57%, black pepper 40% and cashew nut 48%. In spite of difficulties in entering the American market, exporters of aquatic products kept on increasing their earnings by finding footholds in the EU, South Korea, Japan, China and ASEAN

countries with the result that the earning rose by 7% compared with 2003.

The import value in 2004 rose to some US\$30 billion increasing by 23.2% with a trade gap of US\$4.7% equaling 18.9% of the export value. Import increased remarkably in goods needed for local economy and production of exports, such as machines, spare parts, fuel, raw materials, steel, fertilizer, etc.

In 2004, 2.9 million visitors came to Vietnam making an increase of 24.9%. The number of tourists rose by 34%, visitors on business by 12%, visitors to their relatives by 22.4% and visitors with other reasons by 9.5%. Visitors from China rose by 19.7%, and from Japan 30.8%. These increases were because of the political stability, well-controlled bird flu, improved customs procedures, better infrastructure and improved cultural vestiges. In addition, the tourism authorities made many efforts to improve their services and products, advertise them in foreign markets and diversify their products.

Besides these achievements, the economy still contained many shortcomings. The growth rate is still low in comparison with the planned target and not sustainable and even. This reflects in the manufacturing and service sectors. In the Manufacturing sector, the output value rose by 16% but the added value rose by 10.7% only. The growth of many extractive industries relies too much on foreign markets because local consumption increased too slowly. Many manufactured goods are less competitive in terms of quality and price. The same thing also happens to farm products. The main cause is the high intermediate cost, and huge waste in industrial production and construction. Developments of the manufacturing and service sectors are not even in most provinces. The forestry almost made no progress. Output of many manufactured goods made no increase, such as knitwear, cement, diesel engines, machine tools, electric motor, electric fan, etc. In the service sector, besides the tourism that gained a high growth rate, other services developed very slowly. Increasing market prices have produced bad effects on the living standard. This could be seen as the biggest shortcoming in the economic development process.

2. Some predictions

The National Assembly of 11th term has set the following economic targets for the year 2005: an increase

of 8.5% in the GDP, 5.2% in the agriculture, 16% in the industrial output, 8.2% in the service sector and 16% in the export value, 6.5% at most in the CPI and a gross investment equaling 38.5% of the GDP. These targets are high but realistic because they are based on achievements in 2004.

Agriculture: The agricultural product will keep developing well in 2005 and be able to gain a growth rate varying from 5.2% to 5.4% as planned. The food output is expected to top the 40 million-ton mark. The rice output alone will reach 36.5 million tons increasing by 2.2% while the maize output will be 3.6 million tons increasing by 5.5%. The animal husbandry industry will recover quickly after the bird flu because the prices are high. It is planned that the output from this industry will rise by 8% and its share in the agricultural output will pass the 22% level. The aquatic output will rise by 15% at least because the export market will expand.

Industry: The industrial output is expected to rise by 16% or 17%. In fact, this growth rate was obtained in the last quarter of 2004. This prediction is reasonable because the leading industries could maintain their 2004 growth rates while the EU and Canada decided to remove quota system imposed on exports from Vietnam. The private and foreign sectors could develop well because their investments in previous years will start to produce good results.

Service: This sector could grow by 8.5% because great potentials for tourism, transport, finance, post and

telecommunications haven't been tapped.

It is predicted that the export will grow by at least 20% because the growth rates in the past two years were higher than this target (20.8% in 2003 and 30% in 2004). Two years after the CEPT/AFTA Vietnam got some experience and expanded its export market. In addition, the local production has become more competitive.

The gross investment could equal or surpass 36.5% of the GDP because Vietnam will receive some US\$3.4 billion in aid and loans.

As for the task of keeping the CPI under 6.5%, it hardly comes true because causes of increasing prices won't be solved next year.

These predictions allow us to expect a growth rate of 8.5% for the year 2005. This target could be achieved in 2004 if the bird flu didn't intervene. To achieve this aim, however, the Government should solve the following problems:

- Concentrating the public investment in major projects instead of distributing it among too many industries.

- Reducing intermediate cost in all industries in order to increase the added value.

- Controlling strictly the bird flu

- Dealing with drought in the Central Vietnam and Western Highlands

- Releasing quickly the ODA and other sources of foreign loans and aid to complete infrastructure projects

- Encouraging foreign investment in the agriculture and service sectors. ■

