

Measures to Develop the Economy in the Second Half of 2007

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In the second half of 2007, Vietnam faces more difficulties than advantages: the electricity production – one of key industries – hasn't met the market demand and now faces shortage of energy when the South Côn Sơn supply of gas to the Phú Mỹ Power Plant (where supplies 35% of the electricity output) enters a period of maintenance and upgrading from July to September 2007. This means that a supply of some 1,000 MW per day is cut. The shortage of electricity will affect badly the manufacturing and service sectors. The oil production will fall because of reduction in the supply. Prices in both international and domestic markets fluctuate unfavorably, especially prices of aquatic products, footwear and clothing.

The weather is also a cause of worry. According to predictions from the National Center of Hydrometeorological Forecasting, Vietnam will suffer from eight to ten storms. Animal diseases (bird flu, foot-and-mouth, etc.) may spread again at any time.

Advantages are not much encouraging: the foreign investment in-

creases but the supply of capital for development from the central government is not timely. New investments from the U.S., Thailand and India is expected to rise quickly and flow to financial-banking sector and hi-tech industries, thereby helping them develop faster.

Lessons drawn from the first half of the year allow us to have a clear view on strengths and weaknesses of the economy, and obstacles after Vietnam's accession to the WTO, thereby working out solutions for the second half of the year. Main solutions are as follows:

(1) Perfecting mechanism for liberating sources of capital: One of urgent task is to accelerate disbursement of fund from the Treasury that equal 56.5% of the 2007 plan in the second half. Proportions of fund to be disbursed are high in many cities and ministries: 68% in HCMC, 54% in Hà Nội and 72% in Ministry of Transport and Communication. Over 60% of the ODA source planned for the year can't be disbursed because of slow land clearance, changes in zoning plans and rises in prices of raw materials.

To carry out this solution, authorities should take various measures to persuade governing bodies, project contractors and families living on the site of building projects to ensure the speed of land clearance as required by the approved plan. In addition, policies on tax, land price, bid, profit, etc. should be revised in order to make them appropriate to fluctuations in market prices.

(2) Ministries and provincial governments had better publicize the list of prioritized projects based on local conditions and potentials. Structure of major projects, however, must give priority to agriculture (including fishery and forestry) and service because foreign investment in these fields is very small. In the first half, only US\$81.2 million, equaling 2.1% of the FDI source) was put in the agriculture. In the service sector, the FDI only increased slightly: 1.61 billion in the first half, or 40.9% of this source. Measures must be taken in the second half to increase it. In this sector, priority must be given to tourism, hotel, banking and finance, transport and education.

In the manufacturing sector, industries in need of FDI are food processing, high-quality food, and construction of high-quality apartment blocks and new towns.

(3) Promoting export and adjusting structure of imports in order to reduce trade gap. The trade gap of US\$4.78 billion equaling 21.1% of export earnings in the first half is very high and strong measures must be taken to cut it. Possible solution to this problem is to promote export of goods with high potential, such as aquatic products, coffee, rubber, cashew nut, vegetables, wooden furniture, clothing and footwear, to major markets, such as the U.S., China, the EU, Japan, India and Middle East. To increase the export earnings after becoming a WTO member, Vietnam should enhance the competitiveness of its exports by improving quality, designs and prices. As for farm products, full attention must be paid to hygienic standard. In the second half, export of aquatic products could increase remarkably because the market demand is becoming higher, even in such demanding markets as the U.S., the EU, Japan and

Russia. Exporters and producers must ensure high hygienic standard and food safety (there is absolutely no sign of banned antibiotics). The Ministry of Fishery and the Vietnam Association of Seafood Exporters and Producers (VASEP) must carry out regular inspections and handle strictly violation (banning violators from exporting seafood, for example) in order to maintain a good image for seafood exported from Vietnam. Same measures are also applied to other farm products. As for imports, limits could be put on goods that can be made locally, such as cars and motorbikes, and unnecessary consumer goods and raw materials within the framework of WTO rules.

(4) Employing all resources to develop the agriculture: In the second half, the first task is to control and eliminate crop and animal diseases, especially in the Mekong Delta. As for the production of aquatic products, strong measures could be taken to ensure product quality and output during the second half of the year when Vietnam is usually affected by storms. Authorities must accelerate programs to restore and protect forests during the rainy season by encouraging local residents to take part in this task. It's necessary to enhance public

awareness of disease control, protection for the environment, and rules set by the WTO and other agreements Vietnam has signed.

(5) Inflation control: The CPI rise of 5.2% in the first half equaled 150% of the rise in the same period last year. Vietnam will suffer high inflation by the year's end if no feasible, consistent and strong measures are found. In my opinion, these are as follows:

- Beefing up the state control over market prices: Retail prices of goods supplied by state-owned companies (such as electricity, cement, coal, water, and telecommunications, etc.) must be revised. Ministries of Finance and Commerce must work out a mechanism for controlling rises in fuel prices (in the past few months, fuel importers might connive with one another to boost the fuel price). It's right to stop giving subsidies to fuel importers but a mechanism for inspecting and controlling them are necessary to protect legitimate interests of consumers.

- Improving methods of predicting changes in market prices (in the first half, market control authorities failed to produce exact predictions) because optimistic predictions lead to wrong policies on the market control with the result that market prices went out of control.

- Stabilizing relation between supply and demand: Authorities must refrain from boosting prices of goods and services supplied by state monopolies and reduce export of rice. In the second half, it's necessary to attract idle money to banks and stock market by adjusting the base rate of interest, issuing government bond, and cutting duties according to the plans approved by the WTO and AFTA, etc.

(6) Authorities must cut public expenditure and reduce waste of public funds in order to increase the public investment in the infrastructure.

(7) Appropriate measures and programs must be carried out to boost the service sector, such as increasing tourism products, simplifying entry formality for foreign visitors, cutting hotel room rates and tickets to recreation grounds, etc. As for rural areas, cuts and exemption of agricultural taxes and irrigation fees could be introduced to encourage rural residents to engage in supply of services to tourists (HCMC and Vinh Phúc Province applied this program in 2007).

(8) Ensuring tax take and cutting public expenditure: In the first half, the budget income equaled only 46.1% of the target planned for the year. This means that the task of ensuring this income is not easy in the second half.

Appropriate financial measures are much needed now. Some of them are as follows:

- Collecting inland revenue must be carried out properly. All cases of tax evasion must be treated strictly.

- Tax payments from the foreign sector (not including the oil business) equaled only 43.7%, and from the public sector 36.4%, of the planned target in the first half was very low. Strong measures must be taken to secure these sources of income in the second half.

- Some new fees and payments could be introduced to big cities and industrial parks (on construction of houses and factory buildings, on use of the infrastructure, rental for land used by public organizations and state-owned companies and cooperatives, etc.) in order to increase the budget income and ensure equality between rural and urban areas.

- Expenditures on unnecessary conferences, training courses, excursions and inspections must be cut. Governmental bodies must limit their expenditures to preset targets. All forms of subsidies must be revised.

(9) All resources must be mobilized to struggle against storms and floods, protect the infrastructure, and reduce loss of lives and assets in the second half of the year. ■