VIETNAM ECONOMY: ACHIEVEMENTS IN 1995 AND PROSPECTS IN 1996

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According to statistics, the Vietnam GDP increased from 6% in 1991 to 8.1% (1992), 8.6% (1993), 8.8% (1994) and 9.5% in 1995 compared with 0.4% in the 1976-1980 period, 6.4% in 1981-1985 and 3.9% in 1986-1990. Thus, in 1995 it reached the highest rate since 1976 till now.

According to *The World in 1995 and The World in 1996*, the Vietnam GDP per capita ranked second in Asia, lower than China (9.8%) and higher than South Korea (9.4%) who ranked third. However, because of a low starting point (GDP per capita of US$204), the growth rate of 9.5% plus the rise of VNĐ against the US$ could make the GDP per capital in Vietnam to increase to US$249.6 only. In Japan, with its GDP per capita of US$37,580 in 1994, although its growth rate in 1995 was 0.6% only and the yen has also risen against the US$, its GDP per capita made an increase of US$2,920 (up to US$40,500 in 1995). Similarly, in Singapore, the GDP per capita increased from US$24,900 to 30,301 with a growth rate of 8.7%, or in South Korea, from US$9,600 to 11,580 with a growth rate of 8%.

Thus, in the absolute value of the increase in GDP per capita, surrounding countries have developed faster than Vietnam, that is, in 1995, Vietnam continued to fall farther behind them. In 1996, in order to reduce the gap, we should accelerate the economic development.

1. The causes of achievements in 1995

a. In the foreign sector of the economy, the source of capital increased in 1995: foreign realized investment increased from US$1,700 million to 1,800 million; number of tourists coming to Vietnam from 1 million in 1994 to 1,3 million in 1995; immigrant remittances were estimated at US$1.5 billion. This source of capital (from foreign investment, aid, loans, immigrant remittances) is estimated at US$3 to 4 billion.

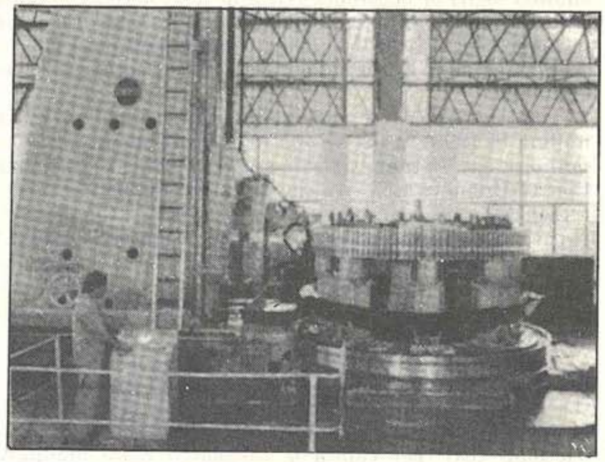
In 1995, there was a good harvest of rice and coffee; the oil output and prices of rice and coffee increased considerably and Vietnam could export US$5,220 million worth of goods. The amount of usable foreign exchange in Vietnam reached around US$9 billion, an unprecedented peak.

Due to this amount of foreign exchange, the imports were also on the increase. The publicized import value was US$7.25 billion, an increase of 1.28 times compared with 1994. Besides the said official import value, the illegal import value was estimated at some US$1 billion. Thus, the Vietnam imports totalled more than US$8.25 billion.

As we know, GDP=k x import; that is, the GDP is a function of import. In the common language, when the imports increase, there will be more machines, raw material... and more goods.

According to the General Department of Statistics, the GDP in 1994 (at the current price) was VNĐ170,258 billion. In 1995, the CPI increased by 12.7% and GDP by 9.5%, that is, the GDP in 1995 was 170,258 billion x 1.127 x 109.5 = 210,109 billion.

The exchange rate on Dec.31,1995 was VNĐ11,011



to the US$, then the GDP in 1995 was around US$19 billion (compared with US$ 14.8 billion in 1994). The GDP per capita increased from US$204 in 1994 to 250 in 1995, an increase of 25%. If we express the GDP per capital in VNĐ at fixed price of 1989, it makes only an increase of 9.5%, because the VNĐ increased against the US$ last year.

b. In 1995, the gross investment also increased, and many projects in the past years have come into operation now. The gross investment in 1995 was estimated at VNĐ62,000 billion, the investment/GDP ratio was 62,000/210,109=29.5%.

Of the gross investment of VNĐ62,000 billion, 5,000 billion came from retained profit of companies; 16,000 billion from private persons; 20,000 (or US$1.8 billion) from foreign companies; 21,000 billion from the Government. According to economists, when the investment/GDP ratio varies between 10% and 30%, an agricultural country comes to the taking-off stage. Our estimation is as follows:

Unit: US$ million

	1991	1992	1993	1994	1995
GDP	8,760.5	10,048.6	12,329.2	14,836.3	19,081
Investment	895.5	726.5	2,320.4	2,664.6	5,630
ratio	10.2%	7.2%	18.8%	17.9%	29.5%

Considering the investment/GDP ratio over year, Vietnam is classified as an economy of taking-off stage. However, it reaches this stage not by its own strength, but by external help.

c. All investment project can only produce good effects after several years at least, when they come into operation. By above data, the investment in Vietnam only started to increase in 1993 (foreign investment mainly). In 1995, some projects which were invested in 1993 came into operation and made exports, GDP and supply of goods to increase.

In short, economic achievements in 1995 are due to increases in imports, investment and operation of some projects. In addition, an increase in prices of agricultural products has encouraged the farmer to improve output in 1995.

2. Measures against inflation

In the first half of 1995, the price index increased by 11%. A lot of stories about this problem have been carried on papers and the Government has taken many measures to curb the inflation such as increasing imports, not increasing the money supply to buy foreign currency (therefore the price of the US$ didn't increase remarkably last year), with the result that up to Dec.31,1995, the price index increased to 12.7 only, that is, it rose by 1.16% only in the second half of the year.

The inflation rate was well under control, but is this a good result?

Regarding the production of sugar cane, it's the harvest time now, but there are over 50,000 tonnes of sugar in stock. Why? At the beginning of 1995, the Government approved the plan to import only 70,000 tonnes for the year. This figure rose to 140,000 later. But the price of sugar kept on rising, and the Government had to have 217,000 tonnes of sugar imported. The price of sugar at present is quite unfavorable to sugar producer (inluding sugar cane planters).

To struggle against the inflation, the Government has increased the aggregate supply too much. Besides sugar, there are surpluses of many other imported goods (such as Honda spare parts, clothing, bicycle, lamp...). The planned value of imports was US$6.2 billion, but up to Dec. 31, 1995, this value totalled US$7.25 billion. We should remember that from 1991 to 1995, Vietnam's foreign debt has risen by about US$1 billion although its debt to the Paris Club and some other nations have been written off. We had better not use foreign debt to import consumer goods in order to curb the inflation rate.

In 1991, the peak exchange rate was VNĐ11,800 to the US$, after some fluctuations, it stayed at VNĐ11,011 to the US$ on Jan.3,1996 (an increase of 6.68% compared with the peak rate in 1992), while the price index increased by 17.6% in 1992; 5.3% in 1993; 12.7% in 1995. The rise in price index and an increase of the VNĐ against the US$ have put local factories in an unfavorable position compared with foreign counterparts. This made foreign goods flood the domestic market, whereas the exports couldn't increase as fast as the imports. Many factories were in financial difficulties last year.

Moreover, within the first eight months of 1995, around VNĐ14,250 billion of goods were imported illegally to Vietnam. Imported goods have reduced profits of local factories. Imported goods could flood the domestic market because the exchange rate didn't change while the production cost of local factories increased.

3. Can the Vietnam growth rate reach 13% or 15% in 1996?

Although many foreign companies and governments have decided on supplying loans, aid or investing in Vietnam but from 1983 to 1994, most projects were on paper. In 1996, many projects are realized and come into operation. When they are realized, foreign loans and aid will be supplied, and these projects will produce multiple effects.

Of these projects, some following major ones will come into operation in 1996: Hoàng Thạch and Tràng Kênh cement plants, Phú Mỹ Power Plant, upgrading works of many national routes, etc. They will attract more foreign capital to Vietnam.

In such favorable conditions, the following measure can be taken to increase the Vietnam growth rate:

- To increase imports to US$8 or 9 billion: we should import more capital goods and less consumer goods, and prevent smuggling more effectively.
- The official rate of exchange should be made more realistic and flexible in order to give incentive to producers and exporters ■