

1. GDP grew by 4.3% as compared with the same period in 1998

According to the General Department of Statistics, the GDP made a year-on-year increase of 4.3% in the first half of 1999: the agricultural output rose by 2.7%; industrial output and construction 7.5% and service sector 2.8%. Comparing with the first half of 1998, only the agricultural production made better progress while the manufacturing and service sectors seemed to stagnate. The following table can provide us with a closer look.

The good progress made by the agricultural production in the first half of 1999 was mainly due to the better harvest of the winter-spring crop in comparison with the

VIETNAM'S ECONOMIC SITUATION IN THE FIRST HALF OF 1999

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Table 1: Comparison between the first half of 1998 and of 1999 (%)

	1 st half of 1998	1 st half of 1999 (est.)
GDP	106.16	104.31
Agriculture	102.12	102.70
Manufacturing and construction	109.98	107.47
+ Manufacturing	112.75	109.41
+ Construction	100.55	100.03
Service	105.84	102.81
+ Trading	106.23	102.10
+ Other services	105.62	103.22

last year. Up to now, 1,768,100 hectares planted with winter-spring crop in southern provinces were harvested: the average yield was 4.86 tonnes per hectare; the total output reached 8.6 million tonnes, 320,000 tonnes higher than the output of the same crop last year. In the north, 1,118,600 hectares of winter-spring crop were also harvested: the average yield was higher than what was estimated, therefore the output could reach 5.4 million tonnes, 100,000 tonnes higher than the estimated output. The output of the winter-spring crop, in all, was estimated at 14 million tonnes. If the output of 1.4 million tonnes of vegetable and root crops is included, the food output of the winter-spring crop of 1999 will reach 15.4 million tonnes, 500,000 tonnes higher than the same crop last year (420,000 tonnes of rice and 80,000 tonnes of vegetables and other crops; 180,000 tonnes come from the North and 320,000 tonnes from the South). Thus, the output of this winter-spring crop reached an unprecedented mark.

The manufacturing and construction sector didn't grow well because

Table 2: Winter-spring crop output (1,000 tonnes)

Winter-spring crop	Vietnam		
		The North	The South
1995	11,998	5,556	6,442
1996	13,587	6,331	7,256
1997	14,696	6,628	8,068
1998	14,891	6,481	8,410
1999 (est.)	15,397	6,662	8,735

the added value generated by the construction business in the first half of the year was only VNĐ.174 billion, not higher than what was realized last year. In addition, the industrial output in this first half rose only by 10.3% in comparison with 13.6% and 12.6% in the first half of 1997 and 1998 respectively. Many industries have been running down because of difficulties in maintaining their market shares. The added value generated by the industrial sector rose only by 9.4% in the first half (manufactured goods by 6.8%, water and power supply by 6.4%, raw materials by 17.7%).

The biggest difficulty facing the industrial sector is the shortage of capital, especially among state-run

companies. In the past few years, the public sector usually accounted for some 50% of the national industrial output but most products from this sector were of low quality and high production cost, so they couldn't compete against the their counterparts from the foreign sector and foreign countries. According to a rough estimate, the sales made by the Vietnam Steel Corporation in the first half was VNĐ912 billion, decreasing by 9.2% in comparison with the corresponding period last year; the Vietnam Beverage Cor-

poration: VNĐ1,068 billion, decreasing by 5.6%, and the Vietnam Coal Corporation: VNĐ1,123 billion, decreasing by 21.0%.

In recent years, the growth rate of industrial output from the public sector tended to become lower and lower in comparison with the growth rate of the whole industrial sector which has been also on the decrease for years.

Industrial output from factories under the Ministry of Industry rose by 10.1% in the first half of 1998, and only by 4.4% in the first half of 1999. The industrial production in the public sector in both HCMC and Hà Nội also stagnated. In HCMC, the centrally-run industrial production in the first half rose

Table 3: Growth rate of industrial output in the first half of recent years (%)

Year	Industrial output	From the public sector
1996	13.2	13.4
1997	13.6	10.7
1998	12.6	10.2
1999	10.3	3.6

by 6.8% and locally-run one by 4.7% (as compared with 10.2% and 14.0% respectively in the first half of 1998). Those two figures realized by the whole industrial sector in HCMC in the first half were 4.1% and 2.6% compared with 10.8% and 4.5% in the first half of 1998.

The privately-run industrial sector had its growth rate reached its peak of 16.9% in 1995. But it started to decline from then on: 11.5% in 1996; 9.5% in 1997; 6.7% in 1998 and around 6.6% in the first half of 1999. The main cause was the fact that 60% of the output of this sector came from family businesses that employed mainly manual labor and their products were simple consumer goods. Other factories in this sector are usually of small size and poor competitiveness because of their small investments and backward technology.

What helped the industrial sector grow by some 10% in the first half was the foreign sector in which many projects have come into operation. In the years 1997-99, 290 foreign-invested companies came into operation making the amount of foreign-invested operational companies rise to 850 by the end of 1998. In recent years, the foreign sector has represented an increasingly percentage of the industrial output and maintained a high growth rate: It represented 26.7% with a growth rate of 21.7% in 1996 and the figures in the following years were 28.9% and +23.2% in 1997; 31.8% and +23.3% in 1998 and 35.2% and +22.6% in the first half of 1999.

The service sector also made poor progress because the trading business which represents some 35% of the added value generated by this sector became less active in the first half of the year. The total retail sales in the first 6 months amounted to VND90,000 billion, increasing by 9.1% in comparison with the same period last year, but if the inflation rate is taken into account, the growth rate is reduced to 1.5% only. The foreign

trade value in the first six months reached US\$10,222 million, equaling 96.6% of the value realized in the same period last year: export value was US\$4,995 million, increasing by 7.7% and import value US\$5,227 million, decreasing by 12.0%. It's noteworthy that most foreign-invested companies failed to increase their export value in this first half.

When the size and capacity of foreign-invested companies increase year after year and their export value doesn't, it means that most of their output is consumed locally. This fact not only puts local companies at a disadvantage but also limits the capacity of foreign-invested companies. The output of foreign companies in Hà Nội for example increased only by 2.9% in the first five months of the year because

Table 4: Export by foreign-invested companies

	Unit	1 st half of 1998	1 st half of 1999
Direct export	US\$mil.	998.0	1,076.0
Year-on-year increase	%	34.0	8.9
As % of the total export value	%	21.5	21.5

they met with difficulties in selling their products. Many of them had to reduce their output: VMEP 18.6%, Deawoo Hanel 33.2%, ABB 34.5%, etc.

The situation shows that the only solution to the industrial sector, including both local and foreign-invested companies, is to export their products instead of producing import substitutions, especially when the unemployment rate in Vietnam is still high and local spending power is poor.

2. Prices and Inflation rate rose slowly and deflation reappeared

The price index increased by 1.7% in January and 1.9% in February; and fell from then on. It decreased by 0.7% in March; 0.6% in April; 0.4% in May and 0.3% in June. Taking the first six months as a whole, the price index rose only by 1.6% in comparison with last December. In the same period of previous years, the price index

rose by 11.4% in 1995; 3.3% in 1996; 1.1% in 1997 and 6.0% in 1998.

Stable market prices constitute a good condition for production, investment and improvements in living standard. In recent months, however, falls in market prices, especially prices of agricultural products, have caused troubles for certain sectors and industries. If the price index keeps on falling, the deflation will make its appearance and become a threat to the economic development if no suitable measures are taken.

3. Budget income fell while expenditure rose

The budget income in the first six months equaled only 46.4% of the target planned for the year and decreased by 2.8% in comparison with the same period last year. Most important sources of income were all on the decrease: income from the public sector reached 49.2%, decreasing by 10.7%; from industrial and service sectors reached 44.0% and decreased by 9.1%. Causes of the fall in the budget income were: the application of the VAT, a decrease of 12.1% in the price of crude oil and the decline in many industries.

The budget expenditure in the first six months reached 45.9% of the target planned for the year and increased by 10.8%; the expenditure on investment projects reached 46.8% and increased by 27.8% and regular expenditure reached 48.4% and increased by 3.3%.

In short, the economy kept on growing in the first six months but many sectors and industries showed signs of stagnation; the rise in price index and inflation rate was low; there was still a budget deficit; business was less brisk and the spending power reduced.

Thus, in the second half of the year, main measures to be taken are: stimulating the spending and investment, especially in rural areas; reforming the management mechanism to mobilize all sources of capital and liberating productive forces to make the best use of existing potentials.