MEASURES TO PREVENT THE GROWTH RATE FROM FALLING FURTHER

by Dr. LÊ KHOA

Of measures to prevent the growth rate from falling, the most effective are export promotion and increase in investment. The export promotion is also a way to increase the gross investment if export earnings are used for increasing the amount of capital goods. Therefore, all plans to maintain the growth rate should focus on increases in export.

1. Vietnam's export

- Data supplied by the Ministry of Trade are classified according to their importance and divided into different categories. The unit price is worked out by dividing export earnings by amount.

- In the above statistics, many data are not available (export volumes of aquatic products and manufactured goods for example) so they make it difficult for analyses.

The above table, therefore, could be simplified as shown below.(See Table 2 next page)

The tables show that farm products represent 44% of Vietnam's export. Other products account for some 22%, if the better part of them is also from the primary sector, then this sector would represent some 55% of the export value.

Prices of farm and mineral products are always low and unstable. Increases in Vietnam's export value in recent years are due to rises in amount of oil exported and an increase in oil price (from 12 to 14 million tons a year and from US$100 to 140 per ton), but it isn't certain that the oil price will keep on increasing regardless of the fact that OPEC countries have decided to cut their oil output.

While the oil price rises, prices of most other farm products are on the decrease (rice, coffee, rubber and black pepper) or make no increase (coal). Although cashew nut enjoys a rise in price, the harvest last year was poor and export value of cashew fell from US$117 to 93 million.

Prices of manufactured goods from labor- intensive industries are also low because of keen competition between developing countries. Vietnam can export these goods profitably because the labor cost is very low.

The only hi-tech commodity exported from Vietnam is spare parts of computer made by a Japanese factory in Vietnam. These goods earned US$474 million in 1998 and 589 million in 1999. It's regrettable that these goods represent only 5% of the export value and they are exported by a foreign company, not a local one.

Such structure of exports is the main cause of Vietnam's poor growth rate in recent years. Vietnam exports more and more farm and mineral products (19.6 million tonnes of rice in 1998 and 23.3 tonnes in 1999). In

Table 1: Vietnam's export in 1988-99

INDICATOR	1988			1999 (est.)			
	Amount (1,000 tonnes)	Earnings (US$ mil.)	Unit price	Amount (1,000 tonnes)	Earnings (US$. mil.)	Unit price	Price fluctuation
A. FARM PRODUCTS							
Crude oil	12,144	1,232	0.10	14,741	2,019	0.14	+ 0.04
Rice	3,749	1,024	0.27	4,550	1,034	0.23	–0.05
Aquatic products		858			982		
Coffee	381	503	1.32	487	591	1.21	– 0.11
Rubber	191	127	0.66	262	145	0.55	– 0.11
Black pepper	15	64	4.27	39	137	3.51	– 0.75
Coal	3,162	101	0.03	3,276	97	0.03	0.00
Cashew	25	117	4.68	15	93	6.20	+1.52
Vegetables		57			74		
Tea	32	50	1.56	37	46	1.24	– 0.32
Total	19,667	4,083	0.21	23,370	5,172	0.22	
B. MANUFACTURED GOODS							
Clothing		1,450			1,682		
Footwear		1,031			1,400		
Handicraft		111			165		
Total		2,592			3,247		
C. HI-TECH GOODS							
Computer		474			589		
Total		474			589		
Others		2,212			2,519		
Grand Total		9,361			11,527		

Source: Ministry of Trade

Table 2: Vietnam's export in 1988-99

Indicator	1988			1999 (est.)		
	Amount (1,000 tonnes)	Value (US$ mil.)	% of export value	Amount (1,000 tonnes)	Value (US$ mil.)	% of export value
1. Farm products	19,667	4,083	44	23,370	5,172	45
2. Manufactured goods		2,592	28		3,247	28
3. Hi-tech goods		474	5		589	5
4. Others		2,212	23		2,519	22
Total		9,361	100		11,527	100

1999, Vietnam enjoyed a rise in the price of crude oil but it isn't certain that it would keep on increasing in the future. The oil reserves in Vietnam's oil fields are limited and it's unlikely that Vietnam could export some 40 or 50 million tons of crude oil in the next decades. We had better save our limited oil reserves for the next generations. In the past decade, Vietnam could only export the same goods: some farm products and goods from labor- intensive industries that developed countries refuse to make. To change the structure of exports is the best way to improve the growth rate.

2. Vietnam's import

The table shows that most Vietnam's imports are manufactured goods (while all NICs import raw materials) or consumer goods. Certain goods are also imported and used as raw materials for local industries but they are usually semi-finished goods (spare parts, fuel, plastics, chemicals, pharmaceuticals, glass, etc.)

Besides legally- imported goods, there are contraband goods and some of them are banned ones.

The above tables allow us to work out the following measures to develop production and prevent growth rate from falling further:

- Struggling against smuggling operation in order to prevent foreign consumer goods from flooding the domestic market: At present, these goods (many of them could be made locally) represent from 60% to 90% of the market supply. The central bank should take measure to control foreign exchange and attract it to banks in order to make it difficult for smugglers to secure necessary foreign exchange. Other urgent measures are: to beef up the customs machinery and to control the sale of contraband goods in the domestic market. These measures can help save from US$1 to 2.5 billion for import of capital goods.

- Increasing import of capital goods: Vietnam spent only US$2.1 billion in 1988 and 2.0 billion in 1999 on imported capital goods. Apparently, such an expense couldn't help Vietnam develop its own heavy industry that requires a much bigger investment. Increasing the import of capital goods within several years, Vietnam could make good progress on its way to industrialization and change the structure of exports.

- To secure enough foreign exchange for the import of capital goods, it's necessary to reduce the import of all consumer goods. This measure could help save foreign exchange for import of capital goods, create more jobs in local industries and encourage production of import substitutes.

According to out estimate, these measures can help us save some US$4 to 5 billion a year for the development of local heavy industry and improvement in the growth rate■

Table 3: Vietnam's import

Indicator	Unit	1988			1999		
		Amount	Value	%	Amount	Value	%
1. Machinery	US$ mil.		2,184.0	18.9		2,010.0	17.3
2. Consumer goods							
Car	Piece		130.0			86.8	
Steel (not including billet)	1,000 tonnes	937.0	359.0		1,360.0	426.5	
Paper	1,000 tonnes	162.0	97.2		198.0	109.9	
Total			586.2	5.1		623.2	5.4
3. Spare parts and materials							
Car spare parts	Set	3,874.0	49.0		4,524.0	38.3	
Billet	1,000 tonnes	812.0	170.0		915.0	163.7	
Fertilizer	1,000 tonnes	3,404.0	474.7		3,821.0	468.1	
Fuel	1,000 tonnes	6,830.0	827.4		7.2	998.7	
Motorbike spare parts	1,000 sets	382.7	350.0		490.0	393.2	
Plastics	1,000 tonnes	513.5	316.0		575.0	359.0	
Chemicals	US$ mil.		235.0		257.0	257.0	
Pharmaceuticals	US$ mil.		312.0		260.0	260.0	
Glass	US$ mil.		12.6		11.5	11.5	
Total			2,746.7	23.8		2,949.5	25.4
4. Others			6,010.1	52.1		6.047.3	52.0
Grand total			11,527.0	100.0		11,630.0	100.0

Source: Ministry of Trade