VIETNAMESE ECONOMY IN 2002 AND MEASURES TO PROMOTE INTERNATIONAL COOPERATION

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In 2002, the Vietnamese economy gained a higher growth rate in comparison with 2001. The GDP rose by 7%. The gross investment increased remarkably. The budget income was higher than the planned target. The structure of industry kept changing positively. Initial results of programs to fight against poverty provided a basis for sustainable development. The economy, however, still faces many problems on its way to the international integration.

1. Some facts about Vietnamese economy in 2002

a. The growth rate: The growth rate according to a rough estimate by the Government was about 7%, the industrial output rose by 14.2% and the gross investment equaled 34% of the GDP. But Vietnam failed to meet two important target: export value rose only by 7% (the target is 10%) and value of service rose by 6.7% (the target: 6.8%-7.0%). In current situation of the world economy, these are encouraging achievements. The 2002 growth rate is higher than the 2001 one and than those of regional countries. Although Vietnam ranked among countries with high and stable growth rates but its economy suffers the following shortcomings:

- Unit cost of many goods and services is high making them less competitive. The main causes are: obsolete technology, high proportion of imported raw materials, and poor management of capital and resources.

- Investment is ineffective because of unreasonable structure and bad management of public works. Delegation of rights to control investment in public works isn't linked with inspection and sanctions against violation.

- Policies aren't consistent and slow to take effect. The army of civil servants is of poor quality.

b. Inflation: In 2000, Vietnam suffered deflation (the price index was –0.6%). In 2001, the price index rose again and the inflation rate was 0.8%. The deflation was over due to policies to stimulate the market demand and increase the public investment. In 2002, the inflation rate was estimated at 3%-4% because the price index rose. In 2001, the unemployment rate showed signs of decline and reduced to 6.3% in urban areas. Employment rose by 1.3% (an increase of 1.5% in the private sector and a decrease of 0.6% in the public one.) In 2002, the unemployment rate seemed to stay the same because the private sector experiences positive changes.

c. Financial policy: In 2001-02, the budget deficit equaled some 4% of the GDP. In 2002, the tax take in the first half made a year-on-year increase of 8.5% equaling 53% of the planned target. However, the planned expenditure is expected to rise by 9.5%, so the aim for 2000 is to keep the budget deficit at 5.3% of the GDP. The most noticeable fact about the fiscal policy in 2002 is the effort to reform the national budget in order to reduce wasteful expenditures. The monetary policy in 2002 aimed at accelerating the economic growth, controlling the inflation and creating more jobs. In the first half of the year, the interest rate on loans in the domestic currency rose suddenly and reached its highest level ever seen since August 2000 when the SBV started to publicize the base rate. This means that the interest rate was determined by market forces regardless of the base rate. To cope with this tendency, the SBV decided to liberalize the interest rate on loans in the domestic currency in June 2002 and reduce the reserve requirement for deposits in foreign exchange to 8%. The SBV also stopped setting the interest-rate ceiling and allowed commercial banks to offer rate of their own. Vietnam was trying to liberalize the interest rate in order to adjust itself to the international integration.

d. Exchange rate: In the send half of 2002, the exchange rate fell slightly. In July 2002, the SBV increased the band around the exchange rate to 0.25% but this effort failed to improve the export. Stability of the exchange rate saved the money market from fluctuations. In late 2002, however, when the FED cut the interest rate to 1.25%, the market became busier because most commercial bank needed capital, in either domestic or foreign currencies, to meet the customers' demand with the result that all banks had to cut their interest rates.

Most economists are of the opinion that the exchange rate control was of service to the purpose of economic stability but it must be more flexible in order to serve the economic growth in the coming years. Measures to achieve this aim are: to expand the band around the exchange rate, to develop transactions in the inter-bank foreign exchange market, to remove limits on membership of the foreign exchange market; to use more effectively instruments of the foreign exchange market (SWAP for example); to introduce such instruments as option and futures, and to facilitate the inflow of capital including immigrant remittance. In addition, the Government should take action to limit the black market for foreign exchange and control such practices as illegal investment or transfer of foreign exchange.

d. Balance of payments: In 2002, the export was promoted but many difficulties still existed. In the first eight months, the value of exported oil fell by 17.2%, the export of coffee was affected by falls in the price of coffee on the world market, output of certain products (computer, electronic appliances, etc.) fell by 35%. Meanwhile, the export of some others started to recover. The export of aquatic products in particular was improved after falls during the first half of the year helping the business meet the planned target.

Import is still a problem for Vietnam. After the financial crisis, the import fell because foreign investment slowed down but it has started to rise again since 1999 because Vietnam needed capital goods. However, the import of consumer goods that could be made locally produced bad effects on local industries. In 2001, the growth rate of import was reduced to 3.45 thanks to stronger measures taken by the Government. In 2002, however, the import was a bitter controversy in the National Assembly. The growth of import in the first eight months was estimated at 15% (23% in the foreign sector in particular). Although the best part of imports was capital goods, a trade gap of US$1.7 billion up to the end of August 2002 was still a worrying fact.

e. Foreign investment: Foreign investment in Vietnam started to decrease after the Asian financial crisis because investors considered this region involved high degree of risk. In addition, policy to encourage the foreign investment didn't produce intended results (the business climate wasn't improved, costs and fees were high, price discrimination against foreign-invested companies still existed, the system of laws wasn't perfect, etc.) And as a result, the 55% fall in foreign investment and foreign aid while domestic sources of capital haven't well tapped caused bad effects on the economic growth.

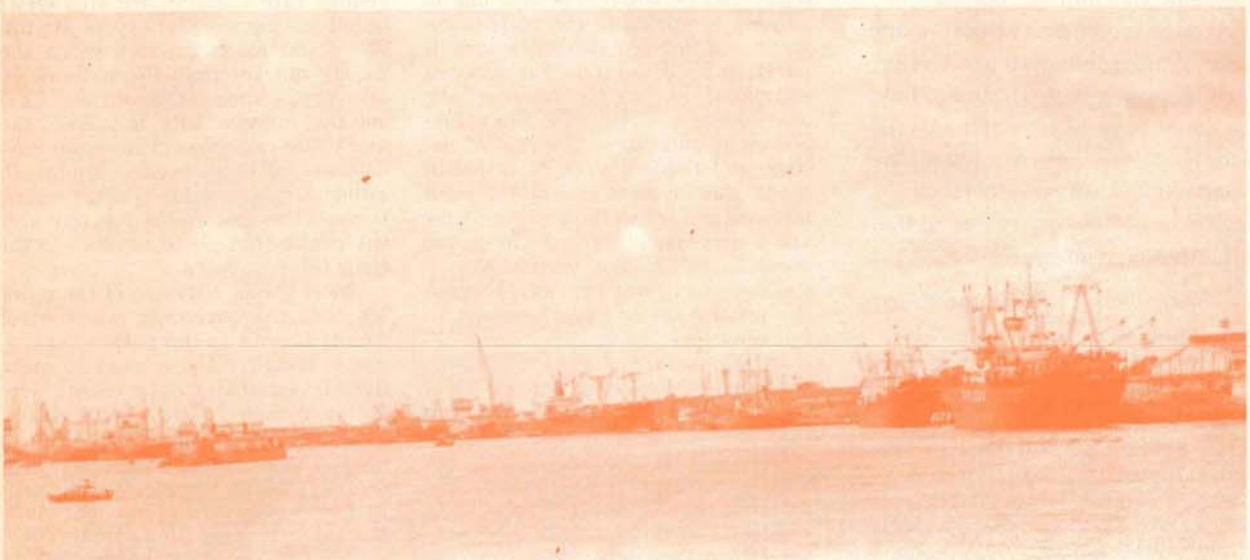
2. Vietnam's foreign relations

a. Vietnam – America: After the BTA were ratified (Nov. 28, 2001) and came into effect, the bilateral trade relation was improved. It allowed Vietnam to enter the American market and enjoy the MFN status in which the import duty of Vietnamese goods are reduced from 40% to somewhere between 3% and 4%. However, the American economic recession after the September 11 disaster prevented the trade relation from developing smoothly. In the past few months, the BTA failed to produce intended results and caused the relation to worsen (the catfish dispute for example.) Besides economic problem, the U.S. usually gives itself the right to assess human right and religious problems in other countries including Vietnam. This made the trade relation between the two countries in the past few years progress slowly. At present, Vietnam is trying its best to improve the relation and its government has adopted many policies to attract more American investors to Vietnam.

b. Vietnam- Japan: Japan is not only a trading partner but also an aid giver for Vietnam. The bilateral trade has increased over years. Vietnam exports clothing (27% of value of exports to Japan), aquatic products and handicrafts and imports capital goods (24%) and chemicals.

In 2002, the trade reduced because the Japanese economy was in recession and many Vietnamese companies were reluctant to enter this market when they considered it as a demanding one. In fact, Vietnam, as Yasuo Yuasa, director of the Chiba Center put it, has great potentials for exporting its goods to Japan. The problem is that most local companies lack information about the Japanese demand, taste and import regulations.

Many Japanese investors thought Vietnam's business climate is increasing favorable for foreign investment (positive changes in policies on foreign investment, low inflation rate, social order and political stability, and abundant and cheap labor force). Vietnam's effort to improve its business climate and position in the region was held in high regard (second only to China) by Japanese business circle. To attract more Japanese investment, Vietnam could cooperate with Japanese partners to develop human resource, study their business



experience and promote the trading relations with Japanese companies.

c. Vietnam-Europe: In the past few years, the trade relations between Vietnam and the euro area have expanded well. The Vietnam's export to Europe was on the increase and 35% of its value came from the clothing industry. As for the investment relation, European countries invested some US$1.1 billion in 2000 in Vietnam accounting for some 12% of the foreign investment in Vietnam. This volume, of course, is very small in comparison with their potentials. Europe is also the third biggest partner to Vietnam in terms of development aid (after Japan and the WB). European aid was directed mainly towards the agricultural production, social development, health care and energy. In addition, European countries offer the GSP to Vietnam thereby promoting the Vietnam's export. An agreement between the SBV and European Investment Bank has facilitated the supply of European credits to Vietnam. Many experts said that the Vietnam-Europe relation in the years 2001-05 would concentrate in three fields: reform aid, economic integration and human development.

d. Vietnam- China and ASEAN: The frame agreement between China and the ASEAN allows Vietnamese companies to enter the Chinese market easier. In the past, the Sino-Vietnamese trade was mostly a system of barter. After the agreement, China offered the MFN status according to the WTO standard to Vietnam, which would promote the bilateral trade relation more actively in the future.

In the relation with the ASEAN, the AFTA promises many benefits for Vietnam but its also brings about difficulties:

- The Vietnam's starting point is low and its competitiveness is poor even in the domestic market (because of obsolete technology, poor management, low product quality, high production cost, etc.).
- High value of the Vietnamese đồng in comparison with the dollar makes Vietnamese exports less competitive.
- Cuts in import duties affect badly the budget income in the long run.
- Foreign investment will be put in other ASEAN countries and goods produced there will be exported to Vietnam without trade barrier if the business climate in Vietnam isn't improved.

3. Measures to develop the Vietnamese economy

The WB report said that Vietnam would face three great challenges in 2003. They are: to complete the structural reform agenda, to deal with inequality and bridge the gap between rich and poor, and to build a better governance. In my opinion, the Government must take the following measures to deal with these challenges and make the best use of opportunities offered by the globalization:

- The Government should be determined to carry out the fiscal policy with a view to getting rid of wasteful expenditures and avoiding losses when carrying out major public works. For the time being, it should realize the budget reform according to the plan made by the National Assembly.
- Foreign relations must be diversified. Full attention must be paid to those with the U.S., the EU, Japan, China and ASEAN. This diversification can help Vietnam avoid dependence on any economies in case of crisis and make its development sustainable.

Both central and local governments should make policies to help companies modernize their technology, cut production cost and improve their ability to promote the trade with foreign partners. They are necessary steps to help local companies secure their footholds when the AFTA comes into effect in 2003.

- The SBV must widen the band around the exchange rate, that is, to let the rate float, to make Vietnamese goods more competitive on foreign markets. The exchange rate with too narrow band applied in the past has hindered the export promotion and effective implementation of the fiscal policy.
- Stronger and more consistent policies should be made to develop financial and banking services. Absence of such instruments as option, future and swap causes companies to be exposed to risks.
- In 2003, the Government should carry out structural reform by taking strong measures to restructure state-owned companies and the banking system as well. The Domestic Investment Law and Foreign Investment Law must be combined and developed into the Investment Law in order to create a level playing field for all sectors.
- Finally, the Government should pay attention to social problems: reducing poverty and unemployment rate, improving the business climate, allowing all sectors to supply education and health care services, reforming the law system and administrative machinery.■

Table 1: Prediction of the Vietnamese economy in 2003-04

Indicator	2003	2004
GDP growth rate (%)	7% - 7.5%	8% - 8.4%
Inflation (%)	4%	4.5%
Export growth rate (%)	12%	13%
Import growth rate (%)	15%	11%
Blance of current account (US$ bil.)	-1.1	–0.9
Balance of payments (US$ bil.)	–0.8	–0.6
Per capita GDP (US$)	490	#

Source: ADB