

After 10 years of economic renovation (1986-1996), the Vietnam economy has made good progress. Passing its ten-year long crisis, it has obtained a growth rate of 8% on average since 1991. Its growth rate increased year after year, period after period. Although it is still facing many challenges and difficulties, but its tendency to develop stably is obvious and irreversible. This tendency is seen clearly in 1996 and leads to promising prospect in 1997.

1. VIETNAM ECONOMY IN 1996

The Vietnam economy kept on developing in the same rate and direction as in previous years. In 1996, its growth rate is estimated at 9.5%, its inflation rate at 6% or 7% (lower than what was predicted at the beginning of the year), its structure of industry changed favorably: the relative importance of manufacturing and service industries tended to increase while the primary sector became smaller although gross output of each industry was on the increase.

1. Manufacturing industry

The growth rate of this industry is estimated at 13.5% compared with 14% in 1995: industries controlled by central ministries (or central industries for short) made an increase of 14.4%, industries controlled by local governments (or local industries for short) increased by 11% (compared with 15.1% in 1995); central state-run industries increased by 12%, local state-run industries by 8.5% (compared with 12.6% in 1995).

New feature of the industrial production in 1996 is the increase in foreign-invested industrial output: it increased by 19.2% in comparison with 3.2% in 1995. Besides the oil and gas business which made the same increase as last year, many other industries

VIETNAM ECONOMY

IN 1996 AND ITS PROSPECTS IN 1997

by Prof. Dr. NGUYỄN SINH CÚC

tries have rocketed: electronic equipment assembling increased by 78%, two-wheeler assembling by 50%, automobile assembling by 21%, so the growth rate made by foreign-invested industries was high and contributed a lot to the overall growth rate of the manufacturing industry.

Sectors that made small increases in 1996 are local industries, especially state-run local industries, cooperatives and family businesses (these businesses represent over 80% of local industries). Causes of this low growth rate are obsolete technology, lack of capital for technical innovation, low quality that made their products failed to compete against imported goods, especially contraband and deferred-payment imports. In Hà Nội, local industries increased by 16.7% in 1995 and by 8% only in 1996, particularly the output of the textile and leather industry equalled only 50% of its output in 1995 because its market share became smaller. In HCMC, local industries only increased by 9.5% in comparison with 13% in 1995 because they have lost a better part of their market share to central industries and foreign-invested industries with products of more competitive price and quality. HCMC local industries that confronted the keenest competition are textile, leather, garment, food processing, soft drink, and cosmetic.

Family manufacturing businesses producing ceramic, tile, brick and handicrafts are also losing their market shares: the most typical ones are Bát Tràng Ceramic Factory (Hà Nội); handicraft business in Sông Bé, Đồng Nai; mother-of-pearl inlaid products from Từ Sơn (Hà Bắc).

Foreign competition affects badly not only non-state industries, but also central state-run industries such as paper, steel and iron, cement. Large stores



of these products in 1996 is a warning about the market for Vietnam manufactured goods in the open and integrated economy. It's high time the Government took protectionist measures to encourage home industries, especially local industries, state-run industries and rural industries.

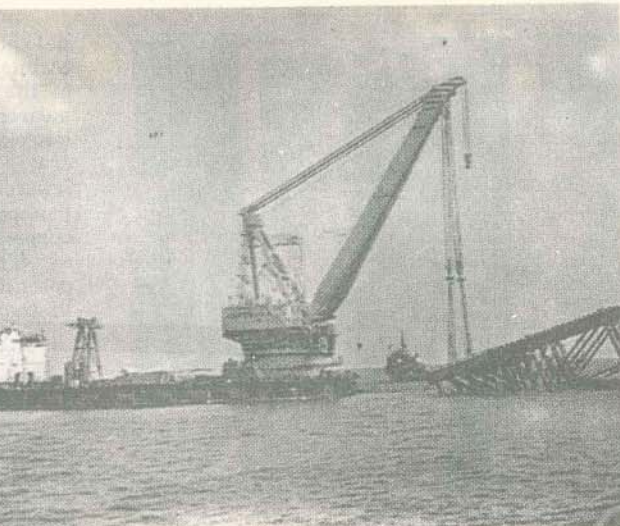
2. Agriculture

In 1996, although over 40 provinces of the country suffered natural disaster that caused great damage for agricultural production, but food output kept on increasing: the total food output in rice reached 29 million tonnes, including 26.3 million tonnes of rice and an amount of foodstuff equivalent to 2.7 million tonnes of rice, increasing by 5.2%, 5.4% and 3.6% respectively in comparison with 1995. It's an unprecedented output and one million tonnes higher than the target planned for the year.

The main cause of this was the good harvest of the winter-spring rice crop which made an increase of some 1.5 million tonnes in rice output. The summer-autumn rice crop in the South, although it was affected by flood, produced good harvest with an increase of 300,000-500,000 tonnes of rice because the rice-growing area was expanded. However, the output of the main crop in the North decreased by 500,000 tonnes of rice because of flood.

The production of other foodstuffs, in spite of bad climatic conditions, kept on increasing, especially the maize output in the South. Because of the increase in food output, the food supplied to the market was on the increase. The amount of rice for export is possibly three million tonnes this year, an unprecedented level. However, the price of food was at low level all over the country.

One problem arising from the rice production this year is the low quality of rice which makes it difficult for farmers and food trading companies to find



market for Vietnam rice. In the Mekong Delta, the rice strain 504 was planted on large areas because it is a high-yield strain, but its quality is low so it's not highly saleable in both local and foreign markets.

Output of the animal husbandry business increased slowly: cow by 2.9%, pig by 33%, the herd of buffalo decreased. Maricultural products reached 1.6 million tonnes and brought in US\$600 million by exportation. This turnover is higher than that of 1995. In forestry business, the rate of afforestation and forest exploitation were on the decrease.

The growth rate of the agriculture in 1996 was estimated at 4.8% (compared with 4.7% in 1995). This is also a good result.

3. Trading

Total sale of retail goods reached around VND144,000 billion, increasing by 11% compared with 1995. Retail goods sold by the public sector represented 22.9%, collective sector 0.8%, private sector 73.6%, foreign sector 0.6% and corporate sector 2.1%.

Because of reliable supplies of goods and effective management of the Government, the market prices in 1996 were rather stable: CPI increased by nearly 3% only in the first 10 months of the year in

comparison with December 1995, therefore it's estimated that CPI will increase by 6-8% this year, that is, lower than what was predicted at the beginning of the year. One of notable facts is the decrease in prices of food and foodstuffs, while prices of services are on the increase and put farmers at a disadvantage.

4. Export and Import

Up to October, 1996, export turnover reached US\$ 5.8 million and will reach US\$7 billion by the year's end according to experts' estimate (compared with US\$6.6 billion gained in 1995). Main exports are garments, textiles, crude oil, rice, minerals. Foreign-invested companies exported US\$662 million worth of goods. This turnover is estimated at US\$800 million by the year's end. HCMC got the largest export turnover: nearly US\$3 billion.

As for importation, Vietnam will buy around US\$10 billion worth of goods by the year's end. These imports include also equipment, machines and raw materials imported by foreign-invested companies.

One of notable facts is large imports bought under deferred payment agreements. Large amounts of imported goods flooded the domestic market, competed fiercely against locally-made products and led to

large stores of cement, steel and iron, paper, electrical appliances and electronic products. Abnormal import surplus (over US\$3 billion) has reduced output of certain industries (soap, cosmetic, garments, etc.)

5. Inflation

According to estimates, the inflation rate in 1996 will be under 10%, or vary from 6% to 8%, that is, not exceed the planned level. However, an inflation rate which is lower than the growth rate has produced bad effects on the local production. Deflation appeared and prolonged with the result that many local factories were reluctant to expand production for fear of suffering losses.

So the Government had better take measures to keep the deflation rate at a reasonable level and the inflation rate higher than the growth rate in order to encourage domestic production in 1997.

The structure of industry has changed in a tendency to increase the importance of manufacturing and service sectors. In 1996, the structure of industry will be as follows: the primary industry represents 28.5%, the manufacturing industry 29.5% and the service sector 42%.

II. PROSPECT IN 1997

The Vietnam economy will develop in the same direction and at the same rate as previous years. It's estimated that the growth rate will be 9% (agriculture will increase by 4.5%, manufacturing industry by 13% and service industry by 9% or 10%). The inflation rate will be higher in comparison with 1996, reach some 10% if the Government takes measure to control the deflation rate soon. Vietnam will keep on industrializing its economy. Foreign investment projects will increase, especially in the North and the Central Vietnam.

All over the country, market prices will be kept stable.