



# 10 OUTSTANDING ECONOMIC EVENTS IN 2002

The report of Prime Minister Phan Văn Khải at the second session of the National Assembly, Term IX (December 2002) pointed out: "The measures to fully utilize internal resources supported by the people have spurred the development of economic sectors, especially the private one, along with the policy of demand stimulus (both investment and spending), expanded domestic markets in recent years and made significant contributions to helping the economy escape chal-

lenges when foreign investment declined and some overseas markets contracted. The economic growth rate is higher than that of the previous year; accumulation and spending rise high; the consumer price index gets out of the status of deflation in previous years. The people's purchasing power increases, at the same time new foreign markets were extended. Nevertheless, the socio-economic situation remains deficiencies and changes slowly, many urgent problems have not yet been solved: In the two consecutive years (2001, 2002), GDP growth are lower than the planned target, export value rises slower than GDP, foreign investment drops sharply in terms of registered capital; the trade deficit in 2002 nearly doubles that in the previous year; the budget deficit has not yet reduced, the percentage of overdue debts is still high. This leads to heavier tasks of economic stability and development in the following three years according to requirements of the five-year plan (2001-2005). In the meantime, major shortcomings of the economy in growth quality, efficiency, and competitiveness have not seen positive changes: production costs soar fast, domestic prices of many products and services are much higher than that of foreign countries; productivity grows lower than that in the previous year; the

plans to develop industries and economic regions are of low quality, many projects are not completed on schedule; land management has a lot of restrictions, resulting to uncontrolled chaos..."

As usual, the *Economic Development Review* profiles 10 outstanding economic events in 2002 as follows:

## 1. HCMC REACHES HIGHEST GROWTH RATE

According to competent agencies; the HCMC economic growth peaks in 2002 within the past five years. The city GDP amounts to VND60,291 billion, up 10.2% over last year and surpasses the target planned for this year (10%). It is noteworthy that the service sector increases 9.1%, much higher than the plan of 7.5%.

## 2. The purchasing power soars

The year 2002 is the first year within the past four years Vietnam fulfills its objective set for the consumer price index. Vietnam has shifted from persisting deflation to slight inflation, thus helps promote investment growth.

## 3. VIETNAM-US TRADE DOUBLES AFTER A YEAR OF BTA

After a year of implementing the Vietnam-US Trade Agreement, the two-way trade value has doubled. Typically the value of Vietnamese garments and textiles sold to the U.S. soared 16 times. In 2002, the export earnings from the U.S. reached US\$2 billion. American investment in Vietnam has recorded significant achievements. The U.S. investment projects in Vietnam have a total value of US\$ 2.1 billion. The U.S. rises to the sixth rank among foreign investors in Vietnam.

## 4. TOURISM SEES SURGING ARRIVALS

### VALS

The tourism industry is experiencing a boom time at the moment as Vietnam has emerged as a safe tourist destination in the Asia Pacific following terrorist threats elsewhere. Vietnam National Administration for Tourism reported that foreign visitors to the country in the whole year rose to 2.6 million and faced a year-on-year increase in revenue of 25%, and the industry expected to earn US\$ 1.2-1.3 billion and pro-

vided jobs for 1.4 million workers in 2002.

The tourism growth also benefits the hospitality sector. Many international hotels in HCMC like the New World, Equatorial, Renaissance Riverside, Caravelle, Majestic, Sofitel Plaza Saigon, Rex and Bông Sen enjoy room occupancy as high as 80-95%. Some 70% of their guests are businesspeople and investors.

Several international travel agencies, including "We Get Around," say Vietnam is emerging as a safe and friendly destination, and more foreign tourists will travel to the country instead of other famous Asian destinations for security reasons.

## 5. NA APPROVES THE MAMMOTH PROJECT OF HYDRO-ELECTRIC PLANT

At its second session, the National Assembly, Term IX gave the go ahead for a scaled down design of a hydro-electric plant in Sơn La Province in Vietnam's northwest. The approved design will have normal water levels of between 205-215m. Construction of the dam will force the resettlement of 79,000-91,000 people from about 16,000-18,000 households.

With capacity of between 1,970 and 2,400 MW, it will be designed to generate 7.55 billion to 9.2 billion KWh per year.

The Government predicts the plant will cost between VND31,000-37,000 billion (US\$2.1-2.5 billion) to build, and hopes to obtain 70 per cent of the funding domestically. Work on the construction of the plant is expected to begin in 2005, with the first turbine to come on line in 2012 and the last in 2015.

The Sơn La dam will also be designed to provide water for lowland farming in the dry season, and prevent flooding in the rainy season. The Government hopes it will stimulate socio-economic development in the country's north-western mountainous region, which is mainly inhabited by people of from ethnic minorities.

## 6. THE VN-INDEX FALLS TO THE BOTTOM

At the age of two, the Vietnam securities market began gloomy when the VN-Index slides from 570 to 250 points. Managers comforted investors that this was the best time for purchasing securities. The index went up slightly but then slid down. It dropped to 200 and fell to the bottom: 177.61 points. The securities, on



the whole, lose 70% of their value in the whole year.

## 7. THE LAND MARKET BOOMS

In the first months of 2002, the land market in big cities experienced boom. On April 22, the HCMC People's Committee issued Directive 08 to enhance state management over land and housing in HCMC when the city was raging with land price fever, land speculations, illegal land transfers, and housing construction without licenses throwing urban planning haywire. Land management in HCMC has improved since the city government introduced the directive. It came out at a time when violations involving land transfer, change of land purposes and housing construction reached the alarm level.

The first half of this year saw only 6,000 cases of construction rule violations, compared to 22,000 cases in the entire 2001, according to a report by the Service of Land Administration. The report says the number of new applications for housing construction has increased and that the situation in which landowners hold on their land in anticipation of higher prices instead of building houses has eased.

Sky-high prices of land, including agricultural land have begun to drop and house and land deals without legal certification have become less popular.

## 8. THE CENTRAL BANK LIBERALIZED INTEREST RATES

On June 1, 2002, State Bank Governor Lê Đức Thuý announced to implement the mechanism of agreed interest rates with credit institutions.

The basic interest rate frame is only a reference. This is a fundamental rectification step in interest rate management, a significant progress in Vietnam's monetary policy. With this mechanism, commercial banks are forced to compete with each other more fiercely. This situation has pushed banks to a race of increasing deposit interest rates.

## 9. THE WAR OF BRAND NAME

### BROKE OUT

The year 2002 witnesses the hardship of many Vietnamese businesses due to failing to protect their brand names. The trademarks of Trung Nguyén Coffee, Vinataba, PetroVietnam...have been pirated by foreign enterprises. In local markets, the same event occurs and there are many disputes over brand name between enterprises. In such a situation, Vietnamese business people begin to recognize the importance of brand names as well as to protect them. Some companies register their trademarks overseas with the aim to prevent the brand war which may waste their millions of US dollars.

## 10. RECORD TRADE DEFICIT

The Vietnam's trade deficit soared to a record of US\$2 billion (export value reaches US\$17 billion). The growth of export and import is 6% and 17% respectively. This event shows Vietnam's lack of initiative in international trade. In the accelerating process of integration in AFTA (90% of items imported from ASEAN will be subject to 0-5% tax rate by 2005), it becomes a big obstacle to be soon removed. ■