



by Assoc. Prof., Dr. LÊ DANH VĨNH\* & Dr. HỒ TRUNG THANH\*\*

## 1. An overview

After a rather long time of being able to maintain a high and comparatively stable economic growth of 7.66% yearly (in the years 2003-2007), during the last two years we have witnessed the national economic growth slowing down to 6%, more or less (6.18% in 2008 and 5.32% in 2009). Numerical data about macroeconomic targets show an unstable situation incurred by high inflation, huge trade deficit, and by some other imbalances in the economy.

The above-mentioned situation is caused by unusual and reverse developments in the world economy and by inherent weaknesses accumulated in the previous years but are not timely tended to.

Since the mid-2007, there appeared unstable signs in the world economy. The price of many commodities, especially raw materials, fuel, and food, increased sharply and affected our economy considerably. Prices of many domestic commodities rose quickly causing high inflation in 2008 (23%), which, in turn, caused difficulties for production and daily activities. In order to deal with this situation, the government gave priority to inflation control, macroeconomic stabilization, social

welfare and a reasonable growth rate. The government's measures pushed back inflation in time, and stabilized production and public life.

From September 2008, the financial crisis and economic recession originating from the United States have spread all over the world and affected almost all economies, especially ours in a negative way. These crisis and recession particularly affected Vietnamese export, investment attraction, tourist receipt and other foreign exchange revenues. They also slowed down economic growth, and threatened the macroeconomic stabilization and social security. The government has promptly promulgated policies to stimulate the economy, carried out a program to supply credit at a subsidized interest rate to push up production and trade and secured employment and growth. As a result, in 2009 while other economies faced negative growth, the Vietnamese economy enjoyed a growth of 5.32% and was one out of twelve economies that gained a positive growth rate.

In 2010 when the world economy started to recover, the world economy as well as Vietnamese one enjoyed more favorable conditions compared to the year 2009. Economic stimulus packages launched in 2009 and executed continuously in

2010 would develop their effects. However, many difficulties and challenges occurred. They were the consequences of the decrease in economic growth in 2009: macro balances were not yet really stable; competition in the economy was still low; infrastructure was weak; trained workforce was in shortage; and natural disasters and diseases took place unexpectedly, etc. Therefore, targets for 2010 remain the same, i.e. “trying to ensure macroeconomic stability and maintaining economic growth.” To achieve these targets, the government issued Resolution 18/NQ-CP dated 6 April 2010 on the measures to ensure macroeconomic stability, curb high inflation, and try to attain an economic growth of about 6.5% in 2010.

Thus, in the past three years, governmental agencies of all levels have all tried their best to achieve these top targets (macroeconomic stability, a reasonable economic growth rate and social welfare).

## 2. Contributions of industry and trade sector to macroeconomic stabilization and economic growth

Trade and industry play an important part in stabilizing the economy and maintaining economic growth based on the following aspects:

- **Firstly**, industrial and trading development pushes up economic growth by providing the market with essential industrial commodities, securing major balances of the economy on energy, materials, machinery equipment, and consumer goods.

- **Secondly**, this sector provides export markets with commodities, limit trade gap, and improve the balance of international payments.

- **Thirdly**, it helps develop the domestic market, stabilize markets and prices, and curb inflation thereby supporting economic growth and social life.

- **Fourthly**, it encourages international integration, expand export market for Vietnamese goods in order to create external strength for economic growth and to push up economic reforms. It also makes the best use of the openness of the market to improve the competitiveness of the economy.

### a. Industrial development:

During the past few years, industrial growth has contributed remarkably to economic growth and macroeconomic stabilization. Currently, the manufacturing sector accounts for a great share in the GDP (around 40%) and consists of many industries that contribute greatly to the national budget such as the oil, electricity, coal, garment, footwear, and electronics, etc. During the 2001-2007 period, this sector had a rather high and stable growth rate, with an average of 16.2% annually. However, during 2008 and 2009, because of the impact of the world economy, its growth partly decreased: it rose by 14.6% in 2008, and 7.6% in 2009.

In 2010, the Vietnamese industrial growth recovered rapidly. In the first 11 months, the industrial output rose by 13.8%. It was expected to gain a growth rate of 12.5% for the whole year, higher than the planned target of 12%. High growths were found in energy, electronics, and consumer goods.

The manufacturing sector, in the past few years, has helped secure major balances of the economy. First of all, it ensured the energy needed for production and daily activities. In 2010, energy had the highest growth: electricity 14.4%, gas 19.2%, liquefied gas 84.7%, and fuel a little more than three-fold increase (3.3 times). In view of the economic recession, high inflation, and imbalanced demand and supply, the increase in industrial output partly helped reduce the above pressures by satisfying the demand for consumer goods, raw materials, equipment, and machinery. Many large-scale and modern industrial projects have helped stabilize the economy such as the Dung Quất Oil Refinery, and some projects in energy, mechanics, chemicals, brewery, and soft drink businesses. Many consumer goods witnessed high growth rates in 2010, such as adult garment 17.9%; sport footwear 19.5%; beer 21.4%; powder milk 26.1%; and stationery of all kinds, 9.9%.

Those achievements in recent times are due to the fact that government directed governmental agencies and local authorities to invest more in electricity projects in particular. The policy to

stimulate demand and support SMEs helped restore production capacity. The business climate was perfected in order to make it more open and favorable for enterprises participating in the development of industry, especially in the foreign sector. In 2010 the Ministry of Industry and Trade proposed policies to attract and encourage domestic and foreign organizations and individuals to invest in the development of supporting and light industries.

However, there are still some limits in the development of industry. The added value of industry is low and there are not enough products or enterprises that could compete in the international market. Industrial production is not yet able to meet the requirements of production and consumption in the country. Therefore, Vietnamese economy still has to depend on outside factors resulting in a huge trade gap and could not cope in a proactive manner with fluctuations in the world market. For example, textile and garment industry could only provide itself with 43% of raw materials and import the rest. The same case occurs to footwear and some others. Technologies and machinery also have to be imported.

## ***b. Export promotion and trade gap control:***

Promoting export, reducing trade gap, and improving trade balance is one of the important balances that helps stabilize the economy and enhance economic growth. In recent years, export has become a major driving force for economic growth, stabilization of the economy, and increases in employment and personal income. Export growth has been maintained at a high level and relatively stabilized for a long time; on average export grew by around 20% annually in the years 1995-2007. Only in 2009, because of the global financial and economic recession, Vietnamese export growth fell for the first time to -9.7%. However, in that same year, many export-oriented countries like Thailand, China, Korea, and Japan saw greater downfall in their export.

In 2010, because of various effective export stimulus policies and recovery of the world econ-

omy, Vietnamese export growth was restored and gained a growth rate much higher than the planned target of 6%. In the first 11 months of 2010 the export value reached about US\$64.2 billion, increasing by 23.5% compared with the same period in 2009. It is estimated that export turnover in the whole 2010 would be US\$70 billion, making an increase of 22.6%. Notably, growth of export of farm products, seafood, and manufactured goods was rather high. The export of farm products and seafood in the first 11 months of 2010 earned US\$13.4 billion, gaining an increase of 20.4%; while export of manufacturing goods earned US\$34.8 billion, increasing by 30.4%. Meanwhile, the export earnings from oil and minerals fell sharply, by 11%, in the same period. A positive feature in export business was that the share of manufactured goods in the total export turnover increased from 62% in 2009 to 68% in 2010. This shows that Vietnamese exports structure has moved strongly to industrialization.

However, for export to contribute effectively to the macroeconomic stabilization and sustainable economic development in the years to come, it is necessary to overcome current limits in export activities such as:

- The added value of exports is still low because of heavy dependence on exploitation of natural resources and cheap labor.

- Export promotion policy in the past few years put a strong emphasis on the quantity target rather than quality and efficiency of export.

- Vietnam failed to develop its comparative advantages based on technology and well-trained labor force to produce highly competitive exports and improve its ability to adapt quickly to changes in the world market. Up to 2009, export of high-tech products from Vietnam accounted for only 9% of its export value while this figure was 35% in China; 40% in Thailand; and 60% in Malaysia. It is worth noting that this share has not changed for the past 10 years.

- The poor quality of export growth limited its contributions to the macroeconomic stabilization and sustainable economic development by lowering the trade gap, restoring the balance of pay-



ments and increasing the foreign exchange reserve.

Reducing the trade gap is one of the tasks set for Vietnam at present as well as in the coming years. Currently trade gap is still a challenge for the economy. In 2007, Vietnam suffered a trade gap of US\$12.4 and the ratio of trade gap to export value was 25.7%; these figures were US\$18 billion and 30% in 2008; and US\$12.9 billion and 22.5% in 2009. If trade gap keeps on going as it does now, it will impinge on the trade balance, balance of payments, value of Vietnamese currency and price index, etc. Recognizing the importance of the issue, the government has taken various measures to promote the export and control strictly the import in order to reduce the trade gap.

Export growth higher than import one and measures to reduce import in 2010 partly reduced the trade gap. In the first 11 months, the import value was estimated at US\$74.9 billion, an increase of 19.9% and the trade gap was about US\$10.9 billion equaling 17.1% of the export value. It is forecast that the import value for the whole 2010 would be US\$82.5 billion, the trade gap US\$12.5 billion equaling 17.8% of the export value, lower than the expected level (20%). In sum, although the trade balance is not yet improved considerably, measures to limit the trade gap have begun to produce intended effects.

It should be noted that the trade balance cannot be improved in a short time:

- **Firstly**, in view of the low development in Vietnam, import is a must in order to make up for shortages in production and consumption in the country. Vietnam is currently in the process of increasing investment to push up production and export but most of the machinery, equipment, and materials are not produced locally. Therefore, they should be imported and this accounts for a very great percentage in the import value.

- **Secondly**, Vietnam is now still in the first phase of industrialization and that is why it should take time to replace imports. For example, it takes time to develop supporting and mechanic industries, and produce high-quality consumer goods. However, what needs discussing here is

that the trade gap has prolonged and increased for a long time. This means that import has not yet pushed up the replacement of technologies and improved the national competitiveness but at times it mainly supplies cheap and low-quality products. At present, import has not yet created a spring for export growth and production of import substitutes in future. This could be seen as a major cause of the prolonged trade gap in Vietnam in the past few years.

### ***c. Development of domestic market and inflation control:***

In recent years, the domestic market is one of the bright points of the Vietnamese economy because of its remarkable contributions to economic growth and economic stabilization. Particularly, against the background of the global economic crisis, decreased export and foreign investment, and huge trade gap, the Vietnamese economic growth is mainly due to the increasing demand for consumer goods and investment in the domestic market. In many consecutive years (2004-2009), retail sales of goods and services have kept increasing at a two-digit level (over 10% after the inflation rate was taken into account). Distribution service in the local market accounts for about 14% of GDP employing more than 5 million laborers and having the highest share in the service sector.

In 2010 it is necessary to consider local market as the basis and foreign market as the important one and support the movement "Vietnamese use Vietnamese goods". And together with governmental support for implementation of trade promotion plans in the domestic market, the local market experienced new developments last year: enterprises paid more attention to this market and more and more local goods were sold. In the first 11 months of 2010, total retail sales of goods and services were worth VND1,425,170 billion, increasing by 25% compared with the same period in 2009. In particular, private and personal trading sectors enjoyed a high growth of retail sales accounting for a big share. In 2010 these two sectors accounted for 85.5% of the total retail sales of goods and service.

However, the level of the development of the



local market is still low. This reflects itself in modernity and scale of the market. In Vietnam there have not yet been big distributors while small and inexperienced retailers are playing the key role in trading but lack experience of business and cooperation. Weak infrastructure also limits the development of the local market as shown in communications network, business facilities, information network, and transportation service. The low quality of local products also causes bad impact on the development of the domestic market in the process of international integration.

Preventing the return of high inflation was one of the tasks of the government in 2010 aimed at keeping the CPI rise under 8%. Last year, the government directed ministries and local governments and authorities to carry out measures to control inflation such as supporting development of production, ensuring the balance between supply and demand forces, especially the supply of essential goods like rice, sugar, milk, medicine, animal feed, fertilizer, fuel, cement, and steel, etc., enhancing the market control, limiting the credit growth, maintaining a reasonable interest rate, reducing budget expenditure, and practicing thrift. However, high rises in many commodities in the world market in the post-crisis period; natural disasters in Central Vietnam resulting in the rises in prices of many essential goods; and wide fluctuations in prices of real estate, gold, and the dollar caused the CPI to increase higher than expected. In the first 11 months of 2010, Vietnam CPI rose by 9.58% compared with December 2009. For that reason, in 2011, inflation control would remain one of the central tasks in the macroeconomic management.

#### **d. International integration:**

In addition to the above-mentioned measures that contributed to macroeconomic stabilization and economic growth, pushing up international integration is also one of the important operations of industry and trade sector to achieve the above target. Vietnam and ASEAN have officially completed a chain of bilateral free trade agreements with six partner countries including China, South Korea, Japan, India, Australia, and New Zealand

in the effort to beef up cooperation and maintain the highly-open regional business climate. The Ministry of Industry and Trade, in cooperation with various governmental agencies, carefully studied and took part in negotiations about free trade agreements with a view to expanding the market for trade and investment. These agreements include: the Trans-Pacific Partner Economic Agreement (TPP), Vietnam-Chile Free Trade Agreement, as well as Vietnam-Switzerland, Vietnam-EU, and Vietnam-Russia free trade agreements. The Ministry also started negotiations about free trade agreements between Vietnam and Turkey, and Vietnam and Switzerland. In 2010, Vietnam performed well the role of standing chairman country of ASEAN, successfully put forward the foundation of the ASEAN economic community, took part in APEC activities, and kept on executing Vietnam rights and duties toward the WTO.

### **3. Some proposals**

The year 2011 is the first year of the 10-year socioeconomic development strategy 2011-2020 and in the five-year plan 2011-2015. The objective of this phase is to achieve quick and stable economic development, mobilize and put all resources into good use in order to gain a growth rate of about 7-8% per year, and ensure macroeconomic stability and social welfare. The trade and industry sector would play an important role in achieving those targets. In order to contribute more to the stabilization of the economy and economic growth, it is necessary for this sector to take some following solutions:

**Firstly**, it is necessary to push up industry in the direction of modernization, and enhance product quality and competitiveness thereby establishing the basis for an industrialized country. Specific measures are: (a) developing industries with high added value; (b) increasing techno-scientific and local content in products; (c) developing selectively manufacturing, high-tech, energy, mining, metallurgical, chemical, and defense industries; (d) giving priority to products competent to engage in global production network and value chain from high-tech, mechanical, informatics, communica-

tions, and pharmaceutical industries; (e) strongly developing supporting industries; (f) developing industries that serve agricultural development, produce clean energy, and new materials with a view to saving energy and raw materials; (g) developing biotechnology and environmental industries; and (h) developing rationally labor-intensive industries.

**Secondly**, Vietnam should continue promoting export and enhancing the quality of export growth. Specific measures are: (a) increasing investment to raise the share of manufactured exports based on technological and labor advantages to gain economies of scale and developing quickly capital- and technology-intensive industries to increase the added value of exports; (b) reducing protection for import-substitution industries and encouraging export-oriented industries; (c) attracting more foreign and domestic investment in export-oriented industries with high competitive advantages; (d) making the best use of market opening opportunity to exploit the traditional competitive advantages in order to raise earnings from export of products based on cheap materials and labor; (e) exploiting opportunities offered by WTO membership and FTAs to create competitive advantages for new exports; (f) preparing to cope with trade disputes, and for the time being, anti-dumping taxes on Vietnamese exports; (g) effectively applying subsidies allowed by the WTO; and (h) accelerate trade promotion programs.

**Thirdly**, controlling import, limiting and gradually reducing trade deficit, and making the trade balance healthier are very necessary. Specific measures are: (a) giving priority to import of raw materials and hi-tech equipment needed for improvement in competitiveness of locally made goods for export; (b) taking measures to limit import of medium or obsolete technologies, luxuries and commodities that can be made locally; (c) developing supporting industries to meet the demand for raw materials of export-oriented industries; (d) limiting import to protect the local production by measures allowed by the WTO, such as emergency safeguards and anti-dumping tax; (e) beefing up import control and for the time being, stopping flows of contraband goods from ASEAN

and China; (f) taking opportunities offered by new FTAs to diversify the import market and import of source technologies.

**Fourthly**, it is necessary to open widely the domestic market and develop local trade. Feasible measures are: (a) creating favorable conditions for development of the domestic market such as administrative reforms and development of infrastructure for trading; (b) enhancing quality and competitiveness of the local products by making high-quality goods appropriate to consumers' taste as well as Vietnamese identity; (c) developing distribution systems and big distribution enterprises as links of all distribution systems in the country; (d) supporting trade promotion programs to expand the domestic market and creating conditions and necessary infrastructure to help export enterprises gain firm footholds in the domestic market; (e) giving specific directives, and inspecting and supervising regularly the implementation of the trade promotion program in domestic market considering it as the core of the action program to persuade the Vietnamese people to give priority to Vietnamese goods■

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