

# PANORAMA OF VIETNAMESE ECONOMY IN 2002

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## I. ECONOMIC DEVELOPMENT IN 2002

Difficulties facing Vietnam in 2002 were greater than 2001 ones. Natural disasters caused great damage all year round: droughts in Eastern South and Central Vietnam; floods in the Mekong Delta, landslides and twisters in Hà Giang, Bắc Can, Hà Tĩnh, Nghệ An, Lâm Đồng, Đăk Lăk and Bình Định, forest fires in Upper and Lower U Minh. The world and regional economies experiences wide fluctuation and came to a period of recession affecting unfavorably the Vietnamese economy because the export markets contracted and prices fell. In addition, many shortcomings in the past haven't been improved properly: poor infrastructure, low spending power, high unemployment rate, shortage of capital and modern machinery, unruly development in many provinces, etc.

Facing these difficulties, Vietnam tried its best to finish its development plan for the year and gained many encouraging achievements.

1. The industrial output was worth VND268,200 billion (at 1994 price) increasing by 14.4% compared with 2001. A new feature of the year 2002 was the fact that all three sectors gained high growth rate: the private sector rose by 19.1% thanks favorable effects of the Companies Law; the foreign sector rose by 13.9% because of lower oil and gas output in comparison with the previous year; and the public sector rose by 11.7% and kept controlling 40% of the total industrial output.

In the public sector, the privatization program helped change the structure of investment, improve the managerial mechanism and apply new technology making state-owned companies more competitive in both domestic and export markets. New features of this sector were the recovery of the engineering industry and development of local industries of small and medium sizes: machine-tool rose by 13.9%; transformer by 23.1%; and soap by 24.5%. Certain engines and motors made by the engineering industry are good enough



to export to less demanding markets, such as South Europe, Africa and South America.

At provincial level, the industrial output from the private sector also rose drastically: Phú Thọ by 45.8%, Vĩnh Phúc 55.6%, Khánh Hòa 31.3%, Bình Dương 30.2%, Đồng Nai 42.2% and Cần Thơ 36.1%. Quality of many manufacturing goods, especially clothing, processed food and aquatic products, was improved to meet requirements of both domestic and foreign markets. Vietnam's rice is sold at the same price as Thai one's. Export of tea rose by 83% and coal by 30%. This progress was due to new machines and technology.

2. The agricultural output rose by 5%, higher than the planned target (4.2%). The rice output increased by 1.6 million tonnes to reach 35.9 million tonnes in 2002 - a record level. The per capita rice output reached 450 kg, 17 kg higher than the 2001 average. The high output ensured food safety, price stability and timely supply to areas damaged by natural disasters. In 2002, Vietnam earned over US\$800 million from export of 3.5 million tonnes of rice (212 million higher than the 2002 earnings).

The higher output was due to better yield and changes in ways of farming. The rice growing area reduced from 7,498,000 to 7,463,000 hectares while the average yield rose from 4.29 to 4.51 tonnes per hectare. New strains were used for producing rice of better quality and high value. The most remarkable result is the fact that the winter-spring crop produced 16.7 million tonnes equaling nearly 50% of the output of the year.

Changing the structure of crops with a view to making the most of existing growing area and putting an end to the rice monoculture spread over many provinces. The share of rice area reduced from 60.6% in 2000 to 58.9% in 2002. The same thing also happened to the coffee area because of falls in its price while areas for other crops, such as tea, cotton, pineapple and vegetables increased. The effort to turn coastal rice fields into fish farms seemed to produce good results. This movement was widespread in Cà Mau, Bạc Liêu, Sóc Trăng, Bình Thuận, Ninh Thuận and HCMC.

The aquatic product output reached 2,562,000 tonnes increasing by 5.3% compared with 2001. The output from fish farms was 789,400

Photo by Nguyễn Ngọc Dao

tonnes increasing by 11.2% (shrimp 189,000 tonnes and fish 446,000 tonnes.) The share of fish farming in the total output rose from 43.7% in 2001 to 45.7% in 2002 while the share of fish catching fell. This shows that the fishing business is developing properly.

3. Retail sales in 2002 was estimated at VND268,300 billion increasing by 12.7% compared with 2001. The spending power showed signs of recovery after many years of recession. Goods were distributed well even in mountainous or disaster-stricken areas. Design, packaging and quality of local goods were improved, which made them more saleable. The price index rose by 4% as planned. This is a result of the demand-stimulating policy, including measures to cut land and agricultural tax and create new jobs in rural areas.

The export value reached US\$16.2 billion increasing by 8%. Although it didn't come up to expectations it is still an encouraging sign. Staple exports gained high growth rates: clothing earned US\$2.6 billion increasing by 32%; aquatic products US\$2.05 billion, 8.6% up; and footwear US\$1.7 billion, 19.7% up. Export of farm products in 2002 was better than last year in terms of quantity and earnings: rubber rose by 46.4% in quantity and 44.2% in earnings; tea by 75.4% and 74.4%, peanut by 46.4% and 41.9%, cashew nut by 41.8% and 15.5%. New features of the export business are bigger share for manufactured goods and expanded markets. Taking the clothing for example, its export to the American market in the first 10 months of the year earned US\$600 million increasing by 11 times in comparison with the corresponding period in the previous year.

The import value was US\$18.2 billion increasing by 12.6%. The domestic sectors imported US\$12.2 billion worth of goods increasing by 9.1%. Thus the trade gap was US\$2.1 billion equaling 13% of the export value. This gap is bigger than that of 2001 but isn't discouraging because the share of consumer goods in the import value was on the decrease while the share of capital goods increased: machinery reached US\$3.5 billion increasing by 33%; ferrous metal was US\$1.44 billion increasing by 32% and fuel was US\$2 billion. In HCMC the structure of imports in the first 10 months was as follows: machinery 12.8%, raw materials 77% and consumer goods 10.2%. However, the increase of US\$168

million in import of autos (39.3% up) was unnecessary.

Regarding the tourism industry, the number of foreign visitors amounted to 2.6 million increasing by 10.3%; and 54.6% of them came here for vacation and recreation. The average stay seemed longer because services and tourism products were improved. Tourist receipts rose by some 20% in comparison with 2001.

Development of the manufacturing and service industries helped the GDP rise to VND541,000 billion increasing by 7%. It's worth noting that the GDP rose steadily over quarters: by 6.6% in the first quarter; 6.7% in the second; 6.9% in the third and 7.4% in the fourth. The growth rate in the order of 7% when facing a lot of difficulties and challenges is really something to be proud of. With this achievement, Vietnam was ranked among countries with the highest growth rates besides China and South Korea. This result was also noted down by the WB- and ADB-prepared Vietnam Development Report dated Nov. 11, 2002.

The economic development allowed improvements in the national budget expenditure and income. According to the Ministry of Finance, the budget income increased by some 11%; 6.5% higher than what was expected; in spite of a loss of VND1,500 billion caused by cuts in land and agriculture tax and other administrative fees. The budget expenditure is expected to exceed the planned target by 2.6%.

The economic growth also facilitated programs to solve social problems. In 2002, some 1.4 million new jobs were created reducing the unemployment rate in urban areas from 6.28% to 6.01% and increasing the working hour in rural areas from 74.37% to 75.41%. In rural areas, non-farming businesses started to develop. The share of agricultural labor in the working population in rural areas reduced from 82.7% in 2000 to 78.4% in 2002 while the share of labor in manufacturing and service sectors rose from 7.8% to 15.4%. This was the highest rate of changing the structure of labor ever seen in rural areas. This makes the target of reducing the share of agricultural labor in rural working population to 50% by 2010 possible. This is also result of the policy to develop traditional handicraft and service businesses in rural areas and the Program 773 to create new jobs. Both local and central government have paid attention to the task of supplying vocational training to rural laborers and courses

in management to officials from agricultural cooperatives for many years, and their efforts started to produce intended results. It is estimated that training courses were supplied to some one million laborers in 2002 thus increasing their employment opportunities.

The personal income increased by 10% in comparison with 2001. In rural areas peasants earned higher income because of good harvests and higher prices for farm products (prices of food rose by 8.6% compared with last year.) In spite of natural disasters, the shortage of food before harvest time reduced by 9.6% in terms of families and 11.4% in terms of individuals. Various social welfare policies also produced good results. The proportion of poor families fell by some 14% as planned.

High growth rate and better living standard led to social order and national security. Vietnam's position in the international community was improved as its foreign relations expanded. It is an encouraging fact when Vietnam was recognized in 2002 as one of the safest nations to live in.

## II. SHORTCOMINGS AND UN-SOLVED PROBLEMS

1. The most noticeable shortcoming in the economic development in 2002 is poor competitiveness of goods and services. In industrial production for example, its output value increased by 14.4% but its share in the GDP rose only by 10% in comparison with 14.2% and 10.4% respectively in 2001. The main reason was the high production cost that accounted for 4.4% of the increase in the output value in comparison with 3.8% in 2001. In other words, the production cost rose by 3.9% as compared with 2001 and thus reducing the competitiveness of manufactured goods. The same thing also happened to agricultural and service industries.

2. Foreign investment kept falling: in the first 10 months of the years, licenses were granted to 543 projects capitalized at US\$1,085.1 million. The number of projects rose by 30.4% but the registered capital fell by 47.6% as compared with 2001. In HCMC, the number of projects rose by 35.2% and their capital fell by 59%. The average capital for a project was small: US\$2 million (US\$1.4 million in HCMC) as compared with US\$4.5 million in 2001. Main reasons are: unfavorable business climate, high land rental and high prices of factor inputs, difficulties in land clearance, time-

consuming procedures for getting investment license. Meanwhile, neighboring countries are trying their best to attract foreign investment. China for example, attracted US\$46.44 billion in foreign investment in the first 10 months of 2002 increasing by 20% in comparison with the same period of 2001.

3. Public investment fell short of target reaching VND18,652 billion (or 84.9% of the planned target) in the first 10 months of the years. Many public works were carried out badly and slowly because of corruption (corrupt officials swallowed from 5% to 20% of the sum invested). The general tendency was to invest in too many works or in a race for fame against other provinces. Slow land clearance and disbursement caused great costs for investors and contractors. Some national programs (afforesting five million hectares and developing off-shore fishing for example) were carried out slowly and ineffectively.

4. Social problems became more serious: drug addiction, traffic jam and accidents, poor health care and education services, unemployment and low income in rural areas. The problems tend to become more complex and widespread and they require stronger measures and more progressive viewpoints.

## II. A PROSPECT OF 2003

The year 2003 is in the middle of the 5-year plan 2001-05 so it assumes great importance. The National Assembly at its second session has worked out the development plan for 2003 that introduced two schemes along with active measures. The

scheme 1 aims at a growth rate of 7% and the scheme 2 at 7.5%. Both of them are based on scientific and realistic grounds and achievements in 2002 when Vietnam is trying to integrate into the world economy.

The manufacturing sector is still the biggest contributor to the GDP (some 39% as compared with 38.3% in 2002). To achieve this target, the sector must gain a higher growth rate and production cost must be reduced. One of difficulties facing the sector is the fact that the oil industry which accounts for some 10% of the industrial output shows no sign of recovery (its output fell by 3.3% in the first 10 months of 2002). The auto and motorbike assembling business will certainly slow down because of the policy to limit the use of motorbike. The clothing and aquatic product industries will meet with difficulty because the American market tends to contract and impose import quotas. Industries with brighter prospects are cement and farm product processing because of more favorable markets at home and abroad. The stronger spending power in 2002, especially in many rural areas that enjoyed good harvests, will promote consumption of manufactured goods in 2003. Rises in prices of building materials during the last quarter of 2002 show that the demand for manufactured goods started to change in a new direction, which helped the industrial production rise higher in the last quarter. This tendency seems to last for 2003. This prospect will be more certain if the foreign sector regains its growth rate.

Possibility of reducing the production cost isn't strong because prices of many factor inputs rise (especially electricity and fuel), the privatization is slow and most companies still depend on old machinery and technology. Better management and organization could help reduce indirect cost.

The agricultural production will keep developing next year. Aquatic product output will increase fast because more and more rice areas are turned into fish farms. The sea farming in various forms will develop fast because of its high profitability. The agricultural production will experience diversification of crops and animals kept for high income. It is predicted that the food output will stay the same while the output of perennials, especially coffee and black pepper, will rise because of the increasing demand from the world market. The share of animal husbandry business will rise against that of crop farming.

The market and trading will be busier because increases in personal income and number of foreign tourists. The export business will gain higher growth rate because Vietnamese goods will be able to enter new markets in Africa and South America. Economic development will facilitate programs to deal with social problems (shortage of food, poverty, unemployment, social equality, drug addiction, etc.). To achieve these targets, the Government must reform its administrative machinery, adopt international practices, and carry out properly policies and solutions introduced by the National Assembly. ■

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