Assessment of Vietnam's Economy by Selected Indicators

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Since its reformation of management system, Vietnam's economy has made progressive steps and recorded a lot of promising achievements such as: low inflation, high growth, decreasing budget deficit, increasing export value, and soaring foreign investment...

However, from the end of the 1990s, growth was almost the momentum of growth in the previous periods; the old factors were not enough to stimulate the economy in the new period which is full of upheavals.

Given the situation, this article displays an overview of Vietnam's economy by annual reports of the International Monetary Fund–IMF, and suggests some measures to improve the efficiency of Vietnam's economy in the next stage.

After the period of impressive growth in the 1990s, Vietnam's economic growth rate had fallen sharply and posed the problems of its vulnerability, sustainability and efficiency.

Sustainability

Inflation

The achievement in the early years of renovation is to curb inflation under 10%, and this is maintained until now and very useful for economic stability. Nevertheless, the inflation remains hidden dangers when it changes in an abnormal manner because essential materials must be imported and depend largely on the world market.

Government budget

The public finance is the basic measurement for economic stability. Vietnam's budget deficit is still under the control and the IMF safety line, 3% against 3.5% of GDP.

The ratio of growth to budget deficit shows a unit of budget deficit is compensated by how many units of growth generated by the internal economy while its production is maintained

Table 1: Growth rate

Year	1997	1998	1999	2000	2001	2002	2003	2004
Growth rate	8.2%	3.5%	4.2%	5.5%	5.0%	5.8%	7.3%	7.2%

Table 2: Inflation rate

Year	1997	1998	1999	2000	2001	2002	2003	2004
Inflation rate	3.2%	7.7%	4.2%	-1.6%	-0.4%	4.0%	3.2%	8.0%

Table 3: General government budget Unit: % of GDP

Year	1997	1998	1999	2000	2001	2002	2003	2004
Total revenue	20.8	20.2	19.8	21.1	22.7	22.9	21.6	...
Total expenditure	22.6	20.4	20.6	23.9	25.6	24.8	24.5	...
Fiscal balance	-1.7	-0.1	-0.8	-2.8	-2.9	-1.9	-2.8	-0.8

Table 4: Growth/budget deficit Unit: times .

Year	1997	1998	1999	2000	2001	2002	2003	2004
Growth/Budget deficit	4.82	35.00	5.25	1.96	1.72	3.05	2.21	10.00

Table 5: Investment

Year	1997	1998	1999	2000	2001	2002	2003	2004
Gross investment *(VND bil.)*	**88.8**	**104.9**	**110.5**	**130.8**	**150.0**	**172.0**	**201.8**	**240.2**
- The government								
- The people	26.4	25.9	33.8	42.5	45.2	50.5	58.6	69.7
- Foreign investors	29.1	49.9	45.3	57.3	...	75.9	88.0	100.8
	33.3	29.1	31.4	31.0	...	45.6	55.2	69.7
Gross investment *(% of GDP.)*	**28.3**	**29.0**	**27.6**	**29.6**	**31.2**	**32.1**	**35.1**	**35.5**
- The government	8.4	7.2	8.5	9.9	9.9	9.2	10.2	10.3
- The people	9.3	13.7	11.2	12.5	...	14.6	15.3	14.9
- Foreign investors	10.6	8.1	7.9	7.2	...	8.3	9.6	10.3

and expanded at the minimum level.

Commonly, the best ratio of developing nations ranges from two to three times both to keep safety and expand production. The ratio must be not too high to destroy necessary stimulus for growth targets.

This ratio is not stable to Vietnam. Its extremely high value in 1998 was not sufficient for economic stimulation in the following years. The values, however, saw a sharp decline for growth to rebound in the next years.

The paradox is lower growth rates while the ratios are smaller.

Efficiency

Investment efficiency

Gross investment of the economy has doubled from 1997 until now, exceeding 30% of GDP since 2001. Nevertheless, this is only a quantitative indication.

To see the efficiency, first we compare it with GDP growth rate by dividing the investment by growth rate of the respective year.

In 1997, the economy only invested VND3.45 to generate VND1 of growth, this figure increased suddenly in 1998 (8.29) and then steadily dropped until 2002 (5.53) but remains 1.5 times higher than the figure in 1997.

Although the decline in investment return could be explained by the law of diminishing marginal returns (the higher the growth rate, the lower the capital efficiency). Nevertheless, there are two reasons for less efficiency of investment:

- *First,* investment returns plummeted suddenly in 1998 and then steadily rebounded until 2002. This is adverse to the common law and shows less effective investment.

- *Second,* the ratio of gross investment to growth of developing nations in the region is approximately 4. Vietnam is an example adverse to the common law.

- *Public investment*

Government investment : Growth rate = (Government investment: Gross investment) x (Gross investment : Growth rate)

The above equation indicates the efficiency of government investment to the economic growth rate is expressed by two factors:

- First, in respect of the extensive effect, the stimulus effect of public investment, that is, VND1 invested from the government budget will result to how many đồng in gross investment.

- Second, in respect of the intensive effect, the efficiency of VND1 invested, that is, how many units of investment are needed for one unit of growth.

The above equation shows no remarkable changes in the extensive effect of government investment while the intensive effect reduces.

Structure of industries

The growth rate of the industry is faster than that of the service. The agriculture stands at the bottom line, this leads to many

Table 6: Investment / growth

Year	1997	1998	1999	2000	2001	2002	2003	2004
- Gross investment/growth	**3.45**	**8.29**	**6.57**	**5.38**	**6.24**	**5.53**	**4.81**	**4.93**
- Government investment/growth	1.02	2.06	2.02	1.80	1.98	1.58	1.40	1.43
- People investment/growth	1.13	3.91	2.67	2.27	...	2.52	2.10	2.07
- Foreign investment/growth	1.30	2.32	1.88	1.31	...	1.43	1.31	1.43

Table 7: Extensive and intensive effects of government investment

Year	1997	1998	1999	2000	2001	2002	2003	2004
- Government investment/Growth	**1.02**	**2.06**	**2.02**	**1.80**	**1.98**	**1.58**	**1.40**	**1.43**
- Government investment/Gross investment	0.30	0.25	0.31	0.33	0.32	0.29	0.29	0.29
-Gross investment/Growth	3.45	8.29	6.57	5.38	6.24	5.53	4.81	4.93

Table 8: Structure of industries Unit: %

Year	1997	1998	1999	2000	2001	2002	2003	2004
Growth								
-Agriculture	4.3	3.5	5.2	4.6	3.0	4.1	4.2	4.0
-Industry	12.6	8.3	7.7	10.1	10.4	9.4	10.0	11.0
-Service	7.1	5.1	2.3	5.3	6.1	6.5	6.7	7.0
Shares in GDP *(% of GDP)*								
-Agriculture	25.8	25.8	25.4	24.5	23.2	23.0	22.5	22.0
-Industry	32.1	32.5	34.5	36.7	38.2	38.5	39.2	40.1
-Service	42.1	41.7	40.1	38.8	38.6	38.5	38.3	37.9

Table 9: Service structure Unit: %

Year	1997	1998	1999	2000	2001	2002	2003	2004
Service	**42.2**	**41.7**	**40.1**	**38.7**	**38.6**	**38.5**	**38.3**	**37.9**
-State sector	23.9	23.5	22.2	21.2	20.7	20.3	20.0	19.7
-State management	*20.6*	*20.2*	*19.3*	*18.4*	*17.9*	*17.7*	*17.2*	*17.0*
-Non-state sector	18.2	18.2	17.9	17.6	18.0	18.2	18.3	18.2

changes in the structure of industries.

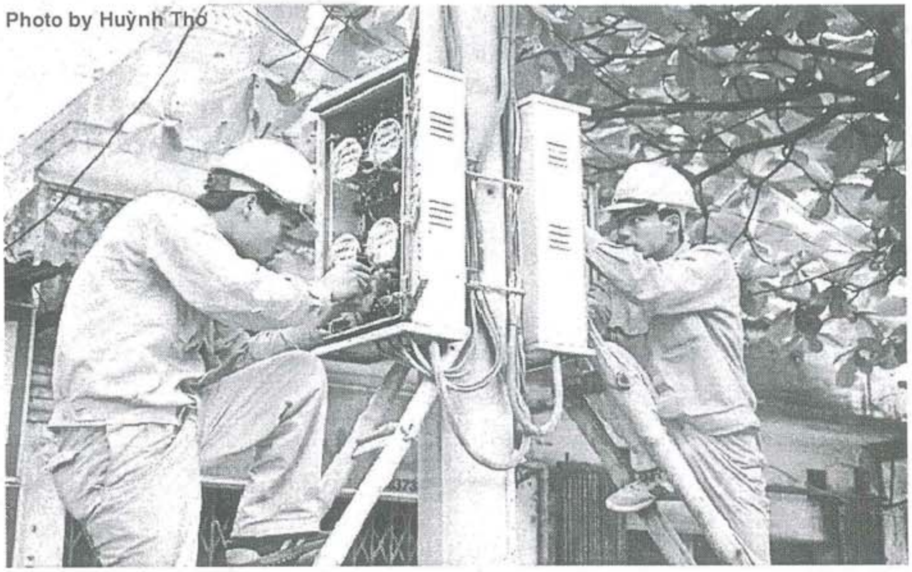
The table reveals the growth rate of the service remains low, even lower than that of the agriculture in 1999. In the process of development, when the service appears and grows, it will certainly take increasingly high share in the economy. In the meantime, the industry experiences high growth rates and the agriculture contracts steadily. The service's low growth rate indicates the economy has not yet grown on the right track.

The above table indicates the service in the non-state sector is rather stable. In contrast, the achievements of the state service drop sharply. This will lead to decline of the total service.

Based on above analysis, some measures are suggested to enhance efficiency of the economy:

Business will face many obstacles if it does not make the best use of information advantages. Consequently, the quality of growth is too low, threatening the economic stability. Nevertheless, Vietnam's approach to this area is really a hindrance to development when only state-owned corporations are allowed to control the

Photo by Huỳnh Thơ



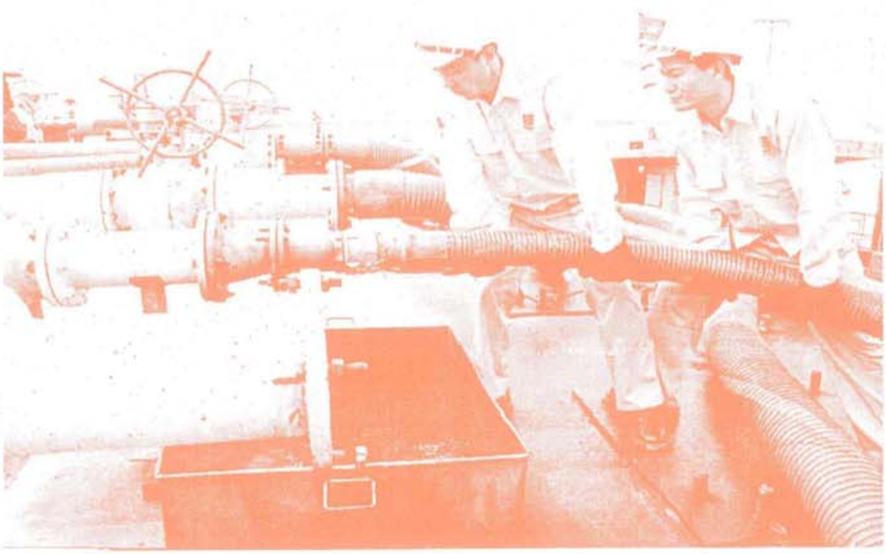
national telecommunications backbone. This backbone should be regarded as the national asset; all businesses have the right to exploit this network in a fair rule.

Once natural resources and cheap labor are not advantages of Vietnam, the country must build its knowledge economy and develop hi-tech industries to generate new comparative advantages to the economy. In this area, the private sector has more favorable conditions in its industrialization and modernization at low costs and higher returns in comparison with state businesses.

On the other hand, the equitization of state-owned enterprises is an optimal solution. This process is, however, encountering a lot of barriers because the interests of relevant members are not satisfied. Some enterprises still want to suck on the budget breast and do not want to grow in the market competition.

* The returns of public investment will be higher if the following measures are implemented:

- The economy is planned with uniform and long-term strategies.
- There should be detailed plans in each five-year period.
- Public invesment will be carried out in accordance the strategic plans, generating stimulus to the total economy.
- Independent inspection mechanism is required along with clear and transparent rules of financial punishment.
- More attentions are given to supportive projects and private investment should step by step displace public investment if possible.
- The financial system should be soon reformed. Non-state, small and medium businesses find it very hard to access the credit system although statistics show growth on the private sector is much higher than the state sector.
- Experience and professional skill of foreign banks should be learned and applied in the domestic banking system.
- The Government is required to speed up its administrative reform. It should promote decentralization and transfer more tasks and powers to the private sector. ■



Notes:

All figures of the above tables are extracted from the IMF documents.