

Vietnamese Economy in the First Half of 2007

Not as Bright as Expected

by MINH HÒAI

1. Four remarkable advances

Firstly, the economic growth rate reached 7.9%, higher than one gained in the same period last year, in spite of unfavorably wide fluctuations in price on the world market and widespread diseases in the animal husbandry business.

Secondly, the service sector developed well. In the past first half, it gained a growth rate of 8.4% - the highest one ever seen. Its growth rate helped push up the GDP growth rate and change the structure of industry by increasing its share from 30% in 2006 to 30.85% in the GDP in the first half of 2007. This advance also means that the sector overcame some of its past shortcomings.

In this sector, retail and service sales increased by 22.9% compared with 19.7% in the same period last year; sales by hotels and restaurants rose from 21.0% to 21.7%; and tourism service from 31.2% to 38.6%.

Thirdly, export earnings reached US\$22.46 billion increasing by 19.4% as compared with 2006. Structure of exports also changed favorably: shares of the mining industry (oil and coal) fell while ones of manufacturing and handicraft industries rose. Exports that earned one billion dollar increased from four in 2006 to seven in the first half of 2007: crude oil, clothing, footwear, coffee, wooden furniture, aquatic product and other. Twenty-two out of 25 exports earned more foreign exchange than they did in 2006. When prices of many staple exports from Vietnam, such as footwear, clothing and aquatic products, fell on the world market, this achievement was very encouraging.

Fourthly, the foreign investment in Vietnam rose to a record level. In the first half, a total investment of US\$5.21 billion was registered making a year-on-year increase of 8% and completing 50% of the target set for 2007. Number of newly licensed projects was 575 with a total registered investment of US\$4.3 billion making an increase of 69.6% in terms of project and 6.4% in terms of capital. This development made the average size of an FDI project rise from US\$6.7 million in 2006 to 7.5 million in the first half. It's worth noting that the flow of FDI tend to move from the manufacturing to the service sector: the FDI in the manufacturing sector fell from 72.7% in 2006 to 56.5% in the first half of 2007 while its share in the service sector rose from

22.6% to 43.2% in the same period. Services that attracted most FDI were: building recreation grounds, resorts, financial advisory service and tourism. This development was one of factors that helped increase the share of this sector in the GDP in the first half of 2007.

This achievement shows that Vietnam can attract some US\$10 billion worth of FDI in 2007 and it is also the biggest achievement of the economy in the first half of the year. Up to the end of June 2007, there were 8,630 valid FDI projects with a newly-added capital of US\$82 billion. Of this number, there were 7,490 valid projects with registered capital of US\$67.3 billion and realized capital of US\$29 billion. If finished projects are taken into account, the realized capital will rise to US\$40 billion.

2. Seven worrying facts

Firstly, the agricultural production shows signs of inadequacy because of subjective reasons. Compared with the same period last year, the agricultural production rose only by 1.99% (crop growing 1.1%; and animal husbandry 5.1%) - the lowest growth rate in recent years - while respective figures in the same period in 2006 were 3.0%; 2.2% and 6.2%.

The rice output of winter-spring crop fell by 531,000 tonnes - a fall never seen in recent years (the output of this crop rose by 218,000 tonnes in 2005 and 266,000 tonnes in 2006), which made the price of rice and cereal rose continuously in the first half of the year. This price in June 2007 rose by 0.45% as compared with May; 5.2% compared with December 2006 and 7.8% compared with June 2006. The volume of exported rice also fell by 19% and earnings from it fell by 5.6% compared with the same period last year. The main reason for this fall is the use of old rice strains that failed to resist various diseases.

The animal husbandry business met with the same situation. The pig herd reduced by 1.4% (384,000 head) because of foot and mouth disease and other ones and increased price of animal feed. The poultry rose by 2% - 4% as compared with the same period last year because the bird flu spread over 18 provinces. These facts show that agricultural authorities and local governments failed to prevent and control the spread of diseases in this business after they were put well under control in past few

years. When relapse came, local governments couldn't take strong measures in time and tended to conceal information about these disasters, which allowed diseases to spread quicker.

Secondly, the industrial output rose unsteadily. Its growth rate of 16.9% was based on increases of 20.5% of the private sector and 19.3% of the foreign one while growth rate gained by the public sector fell to 8.5% from 9.5% in 2006 and 9.7% in 2005. Three industrial centers (HCMC, Da Nang and Ba Ria- Vung Tau) all gained low growth rates. Of 36 important industrial products, 24 ones gained growth rate of 15% at most; five ones rose by less than 10% and five others fell in comparison with the first half of 2006. In addition, difference between the growth rate of output value and added value rose to 6.9% from 5.8% in 2005 and 6.6% in 2006. This means that the industrial production based on subcontract work for foreign companies still occupied a large share. Such development seems less sustainable.

Thirdly, the speed of disbursement for national projects is low. Fund from central government only secured 42.7% of the planned target for the year and this figure in projects run by ministries were even lower: Ministry of Construction 39.2%; Agriculture and Rural Development 40.8%; Fisheries 44.2%; and Transport and Communications 48.1%.

Funds from local governments reached 44.4% of the planned target: Ha Noi 46.7%; Hai Phong 40.1%; HCMC 32%. Only four provinces passed the 50% mark. Main reasons were slow land clearance and red tape. The FDI in the agricultural sector was small – US\$81.5 million – equaling 2.1% of the registered capital in the first half of the year while this sector was badly in need of capital.

Fourthly, the trade gap in the first half reached US\$4.78 billion equaling 21.2% of the export value in this period. This was the highest level in recent years. Sudden increases were found in certain imports, such as automobile 41% and motorbike 42% while the local production of these goods could meet the market demand.

Although the export value reached US\$22.46 billion increasing by 19.4% compared with the same period last year but it was lower than 50% of the planned target. Problems made their appearance in export of aquatic products, footwear, clothing, bicycle and rice. The aquatic products earned US\$1,648 million increasing by 15.8% in this period but they might lose the Japanese market because banned antibiotics in these products exceeded the limit. Russian authorities also beefed up inspection for these substances in aquatic products from Vietnam. At present, 154 out of 470 seafood processing concerns failed to improve their quality control sys-

tems and ensure food hygienic standards. If no measures are taken, the aquatic products can hardly enter such demanding markets as Japan, the EU, the U.S. and Russia.

Fifthly, the CPI rose high and inflation tended to run out of control. Compared with December 2006, the CPI in June 2007 rose by 5.2%. The highest increases were found in housing and building materials: 8.24%; food and foodstuff 6.8%; household goods and services 4.3%; and beverage and tobacco 3.67%. The lowest was in education service: 0.86%. Generally, the CPI rose by 7.8% in comparison with the same period last year.

Causes of increases in price were numerous. Some plans were set too high as compared with ability to fulfill them. For example, the target of rice export was set at 4.5 million tones while the rice output in the fall-winter crop didn't increase and output of the winter-spring crop reduced by 3%. When rice was exported as planned the shortage of rice made its price rise drastically. It will keep rising if rice is exported as planned. Price of commodities supplied by the State increased repeatedly in the first half of the year: electricity by 7.6%; coal by 20%; cement and fertilizer by 10% and fuel by 8.9% in March and 7.2% in May, forced companies to raise prices of their goods and services. Failure to predict rises in prices on the world market led to wrong decision in controlling the market prices, which allowed private companies to speculate on various goods making the prices skyrocket.

Thus, the CPI in the first half of the year rose by 150% compared with the same period last year and it's estimated that it would keep rising at least by 0.5% per month in the second half.

Sixthly, quality and quantity of tourism products were poor. Tourists from neighboring countries reduced in the first half: flow of tourists from China equaled 88.6% of the 2006 volume; from Cambodia 78% and from Laos 76.5%. Many festivals were held and promotion campaigns were carried out but they were not attractive and diverse enough to raise interests among tourists.

Seventhly, budget income and expenditure were not on the target. In the first half of 2007, the budget income equaled only 46.1% of the planned target; inland revenue 48.6% and budget expenditure 45.8% of the planned target. The budget deficit was huge and 28.3% of it was covered by external debts. This proportion seemed unreasonable.

In the second half, great efforts must be made to take advantage of new opportunities that are coming into sight after President Nguyễn Minh Triết visited the U.S.; and at the same time, deal with difficulties posed by both internal and external factors. ■