



Methods of planning and forecasting require: (a) economic data and information in the last five years, especially the previous year, needed for determining the development trend; (b) leading indicator forecasts: this method is used to predict future values of economic variables from present values of statistical indicators. For example, from values of the GDP in 1995 (9.5%), 1996 (9.3%) and 1997 (9%), we can predict that the GDP in 1998 will vary between 8.5% and 8.7%.

These forecasting methods assume that historical relationships that have existed in the past will continue in the future. However the human being always try to improve their economic conditions. Both individuals and governments will try to find out measures to overcome shortcomings and exploit advantages. That is why new plans are made and carried out to obtain better development. At macroeconomic level, all of these factors will be taken into consideration when plans are being made with a view to obtaining better results. However, no method can predict accurately unexpected circumstances such as natural disasters, economic crises or political and military conflicts.

It's difficult to predict Vietnamese economic conditions in 1998 by forecasting leading indicators because great adjustments will be made to macroeconomic policies and the Southeast Asian financial crisis will keep on affecting regional economies.

I. LEADING INDICATOR FORECASTS

The forecast of leading economic

indicators shows that the Vietnamese economy in 1998 seems rather pessimistic. The GDP will vary between 8.5% to 8.7% if we succeed in preventing bad effects caused by the Thai economic crisis. Such a crisis usually lasts for several years before a new period of development comes. Up to now, this crisis keeps on spreading and shows no sign of stopping. In 1998, it is our highest hope that this crisis will be limited but there is no prospect of a high growth rate for Asean economies. Vietnam could be affected by this crisis because of the following reasons:

-Thailand and other Asean countries, like Vietnam, are exporters of agricultural products. When their currencies are devaluated, their exports become cheaper and more competitive than Vietnam's exports.

-A lot of flows of investments,

tourists and loans come from Asean countries to Vietnam. The crisis will cause these flows to decrease.

In addition, import of high-quality goods (or consumerism), smuggling, corruption and old style macroeconomic management (fixed exchange rate system, strict inflation control and poor exchange control) make it difficult for Vietnam to deal with this crisis.

Thus, the forecast of leading indicators by extending their curves shows us that 1998 is a difficult period for Vietnam: the GDP will be some 8%, the trade gap will be US\$2 billion, foreign debt increases US\$15 billion, spending power becomes lower, price of rice in the Mekong Delta reaches VND1,500/Kg, industrial output increases by 12-13%, local companies

ESTIMATE OF VIETNAMESE ECONOMIC CONDITIONS IN 1998

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lose more market shares to foreign rivals, etc.

II. DEMAND FOR NEW MACROECONOMIC POLICIES

The Thai economic crisis and present conditions in Vietnam force the Vietnam's central bank and companies to change their strategies and development plans. The problem now is how to change or innovate them.

a. The conservatives advise reforming them gradually and carefully as what was done in 1997: devaluating the domestic currency a little, allowing 12 items banned some months earlier to be imported again, keeping the inflation rate rather low, etc.

b. Some others suggest radical reforms:

-Reducing import of high-quality goods as suggested by Đỗ Mười, the

VCP Secretary-General, in order to secure capital for the industrialization programs.

In 1998, at least US\$11 billion will be spent on imports, if 4 or 5 billion of this sum will be used for importing new production lines or technologies, many projects as large as Hoà Bình and Trị An hydropower plants of the 1980s will be completed.

-Issuing more bank notes in order to finance industrial projects as suggested by Nguyễn Văn Linh, the ex-Secretary-General of the VCP, according to the Keynesian theory.

In the *Ngân Hàng* Magazine, November issue, published by the State Bank, an article written by Nguyễn Sơn Tùng supported this solution. Because since 1991 the State Bank has insisted on using the fixed exchange rate to control the inflation rate, so we can hope that new banking policies will be adopted next year after this solution is carried in a publication of the State Bank.

In recent years, the production capacity has been raised: the total installed capacity in 1997 allows local factories to produce 1.7 million tonnes of steel and 10 million tonnes of cement, but only a half of these amounts was produced because of a limited market. In 1997 the maricultural production ran down: coastal fisheries didn't yield well, shrimp farming was affected by diseases. Thanks to help from the State Bank, the Ministry of Mariculture could build and sell fishing boats on installment plans to fishermen to help them develop deep sea fishing. This program allowed the Ministry of Mariculture to increase export of maricultural products in 1997.

This credit policy and the program to supply loan to development projects is a good way to encourage local production, struggle against crisis and create new jobs. Thus, each ministry had better make highly feasible development plans and ask the State Bank for needed capital. If these plans are profitable

enough, the State Bank will be certainly ready to supply loan as required.

1. Cooperation between banking, planning, foreign trade and customs authorities

The Japanese MITI has succeeded in cooperating with banking, planning and customs authorities. The MITI sets forth new development plans each year and sends them to companies and other authorities for opinions. After that, the central bank will supply money needed for importing raw materials and foreign trade will grant import licenses.

Vietnam, on the contrary, lacks such cooperation. While other minis-

projects that can yield profit quicker.

In recent years, many profitable and labor-intensive projects have been carried out, such as the North-South power line (two years) and the gas pipeline from offshore oil rigs (one year). In 1997, a VNĐ130-billion canal connecting flood plains and the Thai Gulf, large-scale shrimp farms and tissue-cultured banana plantations were built. Besides these projects, there are many long-term ones are being carried out, such as 700,000 hectares of rubber trees, industrial parks in Sơn La, Dung Quất and Chân Mây, and the Trường Sơn Highway. However, as said above, we had better give priority to short-term and quickly

profit-yielding projects such as industrial parks and ports in HCMC, Vũng Tàu-Bà Rịa, Cam Ranh, Cần Thơ (in the South) and Cái Lân (in the North) because these provinces have great potentials for development. When these projects are completed, we can start long-term ones in remote areas where there is almost no infrastructure. With such a policy, we can make the best use of our limited source capital.



tries make plans to build paper mills, bicycle factories, diesel engine factories or help farmers to keep cows, the Ministry of Trade grants licenses to import paper, diesels and milk. In addition, the police fail to prevent flows of smuggled goods with the result that newly built factories are glutted with finished goods and suffer great losses; foreign debt becomes heavier and the unemployment rate higher.

Thus, the Ministry of planning and Investment had better cooperate with foreign trade, banking and customs authorities to solve this problem by adopting a more flexible exchange rate system, controlling import of goods that can be made locally and starting a more aggressive campaign against smuggling.

2. Replacing long-term projects with medium-term ones

Because of a shortage of capital, we had better choose medium-term

3. Preferential treatment to intellectuals

Apparently, we should innovate our macroeconomic policies. We won't be able to deal with difficulties and many problems left unsolved since 1996 if we stick to old policies (controlling the inflation and exchange rate too strictly, importing too many high-quality consumer goods, etc.), however, this reform can't be made by any individual. It requires a joint effort of scientists, all ministries and governmental bodies. The Government and the VCP have a lot of experience of joining intellectuals together for common purposes. Many leaders and experts have given voice to this reform. Studying and developing their opinions is necessary for us to carry out successfully the industrialization and modernization program in 1998. ■