

Overview of Vietnam's Economic Performance during the First 10 Months of 2006

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ABSTRACT

This paper focuses mainly on analyzing the country's economic performance in the first ten months of 2006, focusing on key indicators such as economic growth, foreign direct investment (FDI), international trade, and the consumer index price and other indices.

1. Economic growth¹

During the first ten months of 2006 Vietnam's economy continued to record high growth, which has been recovering since 2001. In the first nine months of 2006, gross domestic product (GDP), at 1994 prices, was estimated to have increased by 7.84% against the same period of 2005. Agriculture, forestry and fishery increased 3.32%, while the industry and construction sector as a whole rose by 9.85%, 0.13 percentage points lower than in the same period of 2005 due to a slowdown in construction growth during the nine months. Services rose 8.03%, of which some sectors with large proportions continued to record growth rates higher than those in the same period of 2005, such as domestic trade by 8.31%, post and telecommunication and tourism 10.7%, and public services and national security and defense 7.38%.

The economic structure continued to shift in a positive direction towards industrialization. The proportion of industry and construction increased from 41.11% of GDP in the first nine months of 2005 to 41.5% during the first nine months of 2006, services rose from 38.14% to 38.42%, while agriculture, forestry and fishery fell from 20.74% to 20.08%.

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1.1. Agriculture, forestry and fishery production

In the first nine months of 2006, the total output value of the agriculture, forestry and fishery sector, based on 1994 prices, reached VND130.3 trillion, an increase of 4.2% against the same period in 2005, of which agriculture recorded VND95.9 trillion, rising by 3.1%, forestry VND4.8 trillion, a 1.1% rise, and fishery VND29.6 trillion, a rise of 8.6%. The proportion of the agriculture, forestry and aquaculture sector output in the aggregate economic structure fell from 20.74% of GDP in the first nine months of 2005 to 20.08% during the same period this year.

The growth rate in the agriculture, forestry and fishery sector in the first nine months of 2006 is relatively high, but lower than in the same period of 2005. This decline was mainly caused by a slowdown in agriculture and fishery due to unfavorable weather conditions and pestilence. As at mid-October, 2.145 million ha of summer and autumn-winter rice was harvested, accounting for 92% of the total rice cultivation area. According to preliminary estimates, rice productivity in the summer crop throughout the country fell from 1-3 quintal per ha against the same period of 2005, due to the harmful effects of widespread pestilence and unfavorable weather conditions.

Animal husbandry, meanwhile, suffered from livestock and poultry diseases. As at October 20, foot-and-mouth disease had become widespread in 25 communes in 15 districts in six provinces. Inoculation against poultry disease was reinforced in all provinces but remained slow due to shortages of vaccine. However, livestock herds and poultry flocks continued to rise nationwide.

Forestry achieved solid results, as weather conditions facilitated afforestation. In the first ten months of 2006, the total area of concentrated forest in the whole country was estimated at 162,300 ha, an increase of 2.8% against the same period of 2005. In addition, the area of destroyed forest due to harvesting and fire decreased remarkably. In short, the area of destroyed forest was 4,721.5 ha, 46.8% less than in the same period last year.

Fishery production continued to develop during the first ten months of 2006. Total output of aquatic products was estimated at 3.045 million tons, 8.2% higher than in the same period of 2005, of which aquaculture output reached 1.343 million tons, an increase of 19.4%, and the aquatic catch stood at 1.702 million tons, an increase of 0.8%.

1.2. Industrial production

Industrial output played a key role in domestic production growth because it accounts for the largest share of total economic output. Value in the first ten months of 2006 reached VND 411,627 billion, 16.9% higher than in the same period of 2005. Industrial output value in the non-state sector increased at the highest rate, by 22.3% against last year, while that of the foreign-invested sector rose 19.5% and the state-owned enterprise (SOE) sector by 9.3%. In the foreign-invested sector, the output value of oil and gas fell by 4.9% (mainly due to reductions in average oil prices and Vietnam's policy of conserving the country's natural resources), but output of other industrial products increased by 25.1%.

In terms of the ownership structure, the foreign-invested sector played the most important role, accounting for approximately 39% of the total industrial output value (Table 1). Even with crude oil and gas excluded, the sector still accounted for the highest proportion, at 32.86%. The

non-state sector recorded the highest growth rate in industrial output but had the lowest proportion of total industrial output value, at nearly 30%.

**Table 1: Value and growth rates of industrial output
in the first 10 months of 2006, by ownership**

	Sector	Total output value (billion VND)	Compared to October 2005 (%)	Share of total industrial output value (%)
1	State-owned enterprises	130,185	9.3	31.6
2	Non-state sector	122,267	22.3	29.7
3	Foreign-invested enterprises	159,175	19.5	38.7
	Total	411,627	16.9	100.0

Source: GSO (2006) and author's calculation.

Some of the main industrial sectors with large proportions of industrial output value continued to record high and stable growth rates, contributing to the overall high growth rate of the industry sector in the first ten months compared to the same period last year. For instance, the share of food and beverage production was 21.4% of industrial output value, an increase of approximately 17%. Products such as rubber and plastic, and leather and leatherette, had a smaller share of about 5% of industrial output value but recorded quite high growth rates, of 26% and more than 18%, respectively (Table 2).

**Table 2: Growth rates in industrial output value of key industries
in the first 10 months of 2006 (%)**

	Industry/product	Share of total industrial output value (%)	Compared to the same period of 2005 (%)
1	Food and beverages	21.4	17.0
2	Leather, leatherette	4.7	18.0
3	Wood	2.0	28,8
4	Rubber and plastic	5.2	26.0
5	Metal	4.1	24.0

Source: GSO (2006) and author's calculation.

While some industries recorded high growth rates, others fell short of achievements in the same period of 2005, such as crude oil exploitation (falling 8.3%), machinery and equipment (33.3%), and automobiles (32%).

There were cities and provinces that experienced higher-than-average growth rates in industrial output (the average being 16.9%) during the first ten months of 2006: Hai Duong 23.6%, Ha Tay 22.5%, Vinh Phuc 21.1%, Dong Nai 20.6%, Binh Duong 19.1%, Quang Ninh 18.1% and Hanoi and Hai Phong 17.6%. Ho Chi Minh City recorded industrial output growth at

a much lower level than these provinces, increasing by 13.2%. Provinces in which the foreign-invested sector recorded the highest growth rates in industrial output were Hai Duong (36%), Khanh Hoa (31%), Dong Nai and Hanoi (about 30%), and Binh Duong (20.3%).

1.3. Total retail revenues of goods and services

The total retail revenues of goods and services at current prices for the first 10 months were estimated at VND 470,000 billion, some 20.5% higher than in the same period last year. Retail revenues of goods and services at current prices of the non-state sector continued to play the major role, accounting for nearly 85%, with the state sector accounting for only 12.5% and the foreign-invested sector 2.5%.

The hotels and restaurants sub-sector accounted for a significant proportion of total revenues and experienced quite high growth. Tourism was also among the sub-sectors with the highest growth rates, but its proportion of total revenues was very small. The fact that the living standards of Vietnamese people have improved and Vietnam has become a more attractive destination² can be regarded as the key factors behind these achievements. The performance of the retail revenues of goods and services, by sub-sector, for the first ten months of 2006, is shown in Table 3.

**Table 3: Total retail revenues of goods and services, by sub-sector
in the first 10 months of 2006**

		Total revenues (billion VND)	Share (%)	As compared to the same period of 2005 (%)
1	Domestic trade	382,965	81.5	19.7
2	Hotels and restaurants	56,808	12.1	21.4
3	Tourism	3,420	0.7	28.7
4	Other services	26,809	5.7	31.2
	Total	470,002	100.0	

Source: GSO (2006) and author's calculation.

2. Foreign direct investment

Foreign direct investment (FDI) attraction can rightly be regarded as the highlight in Vietnam's economic picture for 2006. As at October 20, 705 foreign invested projects were licensed nationwide with total registered capital of USD 4.78 billion and additional registered capital of about USD 1.71 billion, bringing total foreign investment to nearly USD 6.5 billion. According to estimates, in 2006 the total amount of FDI inflow could surpass the record set in 1996 (of USD 8.6 billion)³. The prospect of a new wave of foreign investment inflow, particularly from Japan and the US, is considered to be very high, which would contribute to increased foreign investment in Vietnam in the coming years.

By sector, foreign-invested projects licensed during the first ten months of 2006 were mainly concentrated in the industry and construction sector, with 477 projects worth USD 3.1 billion and accounting for 65% of total registered capital, followed by services with 32.8% of the total.

Sectors with the major share of total registered FDI capital were heavy industry (43.6%), light industry (15.5%), and transport, postal services and hotels and tourism (nearly 9%) (see Table 4).

Table 4: Top 10 sectors with largest FDI in the first 10 months of 2006

	Sector	Number of projects	Registered capital (thousand USD)	Share in total registered capital (%)
1	Heavy Industry	209	2,083,257	43.58
2	Light Industry	209	740,199	15.49
3	Hotels, tourism	9	429,600	8.99
4	Transportation, postal service	15	428,475	8.96
5	Offices, apartments	7	182,146	3.81
6	Services	126	142,366	2.98
7	Construction	34	107,160	2.24
8	Agriculture and forestry	45	102,874	2.15
9	Food processing industry	14	67,360	1.41
10	Culture, health, education	21	54,948	1.15
	Total	689	4,338,385	90.76

Source: GSO (2006) and author's calculation.

Encouragingly, 2006 was the first time that many major hi-tech projects were registered, in particular those of Microsoft and Intel. Intel raised its investment in Ho Chi Minh City to more than USD 1 billion. The Meiko Electronic Corporation from Japan signed a contract to build a factory producing electronic plates and hi-tech products in Ha Tay province, and the UMC Electronic Company invested in building a factory specializing in the assembly of hi-tech electronic equipment in Hai Duong province.

Table 5: Top 10 cities and provinces receiving the largest amounts of FDI in the first 10 months of 2006

	Province	Number of projects	Registered capital (thousand USD)	Share in total registered capital (%)
1	Ho Chi Minh City	190	1,151,724	24.09
2	Binh Duong	153	666,283	13.94
3	Hanoi	89	530,319	11.09
4	Dong Nai	67	275,330	5.76
5	Hai Phong	27	123,227	2.58
6	Hung Yen	15	70,221	1.47
7	Vinh Phuc	14	61,889	1.29
8	Long An	13	97,500	2.04
9	Bac Ninh	12	50,983	1.07

10	Binh Phuoc	12	41,649	0.87
	Total	592	3,069,125	64.21

Source: GSO (2006) and author's calculation.

By city and province, the FDI inflow into Ho Chi Minh City lead the way with 190 projects and 24% of the total registered capital. Binh Duong province followed, with 153 projects and 13.9%, then Hanoi with 89 projects and 11%. Provinces with a high proportion of total registered capital included Dong Nai, Hai Phong, and Hung Yen, among others. (see Table 5).

By FDI origin, as at October 20, 477 projects from 38 countries and territories had been granted investment licenses, of which Hong Kong was the biggest investor with registered capital of USD 833.5 million, accounting for 17.4% of the total. Second place was held by South Korea, with a 16.2% share of total investment capital. The US ranked third, with 13.3% of the total. (see Table 6).

Table 6: Top 10 largest investors in the first 10 months of 2006

	Country/territory	Number of projects	Registered capital (thousand USD)	Share in total registered capital (%)
1	Hong Kong	17	833,506	17.44
2	South Korea	180	770,353	16.12
3	The United States	45	635,562	13.30
4	Cayman Islands	2	576,000	12.05
5	Japan	115	556,380	11.64
6	British Virgin Islands	16	319,829	6.69
7	Singapore	41	223,618	4.68
8	Taiwan	103	176,837	3.70
9	The Netherlands	11	90,908	1.90
10	India	5	77,900	1.63
	Total	535	4,260,893	89.14

Source: GSO (2006) and author's calculation.

The remarkable achievements mentioned above are due to many factors. *Firstly*, Vietnam's continued high economic growth rate, its membership of the WTO, and its huge domestic market with a young population are significant, making the country more attractive to foreign investors.

Secondly, its efforts to improve the investment and business environment and promote investment, especially the introduction of the Investment Law 2005 and the Enterprise Law 2005, have been important factors in encouraging foreign investors to invest more in new and additional projects.

Thirdly, since Vietnam occupies an important geo-political position, the surge of investment inflows from the US, Japan, South Korea is perhaps part of a new strategic direction, including the investment strategy of trans- and multi-national corporations aiming to increase benefits, spread investment risk, and restrain the two newly emerging economic powers in the region (China and India).

However, the investment environment in Vietnam remains generally unfavorable, making foreign investors concerned. Key shortcomings include poor infrastructure, an incomplete legal framework, lack of transparency, cumbersome administrative procedures, and widespread corruption. Vietnam therefore needs to improve its investment environment to make itself more attractive.

3. International trade

Vietnam's international trade sector continued to prosper in 2006. Goods import and export turnover for the first ten months stood at USD 69.74 billion, a 22.3% increase over the same period last year, of which export turnover reached USD 32.87 billion, a rise of 24.2%, and import turnover USD 36.87 billion, an increase of 20.7%. Since goods export turnover was higher than goods import turnover, the gap between them narrowed. However, the trade deficit for the first ten months of 2006 was equivalent to that in 2005.

3.1. Goods export turnover

For the first ten months of 2006, goods export turnover increased sharply both in the domestic sector and the foreign-invested sector. Goods export turnover in the domestic sector recorded USD 3.85 billion, 22.3% higher than in the same period last year. Meanwhile, goods export turnover, excluding crude oil, in the foreign-invested sector amounted to USD11.91 billion, an increase of 32.4%.

Taking into account the terms of goods exports, Vietnam continued to promote the export of commodities with high comparative advantage and export potential. Crude oil recorded the highest value in export turnover during the 10 months, at USD 7.1 billion and increasing by 15.9%. Second highest was textiles, 27.2% higher than in the same period of 2005 (the value of textiles exported to large markets like the US increased by 26.5%⁵, and to the EU by 49% against the same period of 2005). Although Vietnam faced difficulties because of the EU imposing anti-dumping tariffs, the export value of footwear made by Vietnamese enterprises increased by 19.9% against the same period in 2005, of which the value of exports to the US market rose by 31%. Table 7 shows the key export items with the highest export values during the first ten months of 2006.

Table 7: Top ten export goods for the first 10 months of 2006

	Key items	Export value for first 10 months of 2006 (million USD)	Growth rate as compared to the same period of 2005 (%)
1	Crude oil	7,114	15.9
2	Textiles and garments	4,969	27.2
3	Footwear	2,871	19.9
4	Aquaculture products	2,753	23.2
5	Wooden products	1,531	25.6
6	Electronics, computers	1,414	20.2
7	Rice	1,189	-7.8
8	Rubber	1,091	86.3

9	Coffee	844	37.6
10	Coal	713	37.8

Source: GSO (2006) and author's calculation.

3.2. Goods import turnover

Goods import turnover for the first ten months of 2006 was estimated at USD 36.87 billion, an increase of 20.7% compared with the same period of 2005, with that of domestic enterprises standing at USD 23.34 billion, rising by 20.6%, and that of foreign-invested enterprises USD 13.53 billion, an increase of 20.8%.

For the first ten months of 2006, goods imports mostly included fuel and raw materials, and machinery and equipment for domestic production and consumption, and they were on the increase. The import value of petrol rose rapidly due to a sharp increase in petroleum prices in the middle of the year (although the import volume was less than that of 2005). The import value of machinery and equipment during the period increased 23% against last year and recorded the highest import value. The import value of fabric accounted for nearly USD 2.4 billion, rising 22.9%. Nevertheless, the import of other inputs for textiles and garments and leather products during the 10 months fell by 12.7%, due to domestically-produced items gradually substituting imported items. The ten goods with the highest import value for the first ten months of 2006 are listed in Table 8:

Table 8: Top ten import merchandises for the first 10 months 2006

	Key items	Import value for first 10 months of 2006 (million USD)	Growth rate as compared to the same period of 2005 (%)
1	Machinery, equipment, and accessories	5,315	23.0
2	Petrol, machinery oil	5,124	22.3
3	Steel	2,423	-4.2
4	Garments	2,394	22.9
5	Electronics, computers and accessories	1,653	20.1
6	Garment inputs and leather	1,633	-12.7
7	Plastic	1,540	28.0
8	Chemicals	850	19.8
9	Chemical products	834	22.3
10	Animal feed and related products	671	30.6

Source: GSO (2006) and author's calculation.

The major import markets for Vietnam were still Asian countries and territories such as Japan, China, Taiwan, Singapore, and others. For example, the import of machinery and equipment from Japan amounted to some USD 1 billion, from China USD 798 million, and from Taiwan USD 496 million.

The achievements seen in foreign trade during 2006 can be attributed to the efforts made by the Vietnamese Government and the enterprises themselves.

For the government, 2006 was the first year it carried out renovation of the management and monitoring in the long-term over the National Trade Promotion Program under Decision No. 279 from the Prime Minister dated 3rd November 2005, making it possible for enterprises to access the Program and simplifying payment procedures. The state agency governing the program also became more flexible in working out and adjusting items in the Program. For example, Vietnam promulgated an import-export mechanism to comply with the principles and regulations of the WTO under Decree 12/2006/ND-CP dated 23 January 2006, on activities in the purchase and sale of export-import commodities and assembly activities. To date, this has been the longest-term mechanism, bringing stability in monitoring international trade activities and supporting enterprises to develop their own strategies.

Enterprises have also made greater efforts and taken a more proactive approach to international trade activities. Export and import activities were also conducted during the Tet (new lunar year) holidays. In particular, taking the delivery of goods to customers and the receipt of payment as a completed task, Vietnamese enterprises have gradually been active in accessing distribution channels in foreign markets and providing customer care services, making it possible for exports to be promoted in a sustainable manner over the long-term.

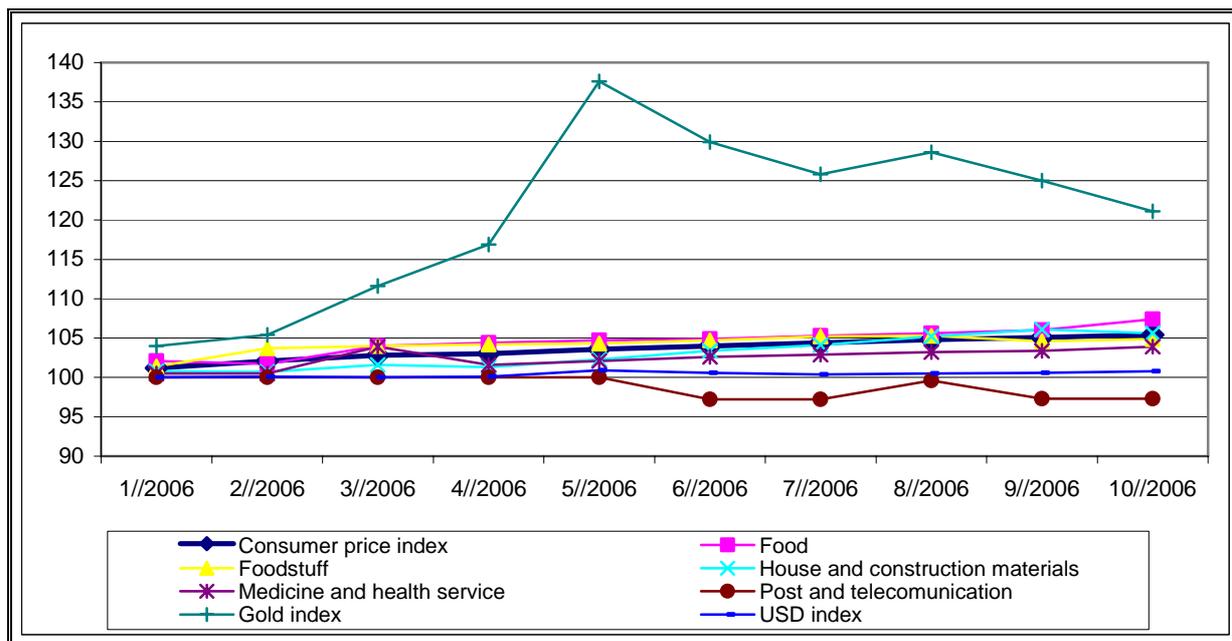
4. Consumer price index

During the first ten months of 2006, the consumer price index (CPI) increased considerably but at a rate much less than in 2005, even though oil prices rose quite sharply in the first half of the year. Huge price fluctuations in the world market had a major impact on the prices of domestic goods and services. Compared to December 2005, the CPI in October 2006 had increased 5.4%, and 6.7% against October 2005.

Goods and services recording the highest increases in price include food and foodstuffs, at 7.4% and 4.9%, respectively, housing and construction materials 5.6%, and textiles, footwear, and hats 5% against December 2005 (Figure 1).

**Figure 1: CPI growth rate, gold price index and VND/USD exchange rate
in the first ten months of 2006**

(Price levels of December 2005=100)



Food and foodstuff prices increased primarily because of impacts from natural calamities (typhoons and floods), and disease (foot-and-mouth disease and diseases caused by pestilence), and partly because of escalating rice prices in the world market, causing a rise in the rice wholesale price in the domestic market despite the efforts of the government to stabilize prices, such as suspending rice exports and selling the national rice reserve in an organized manner.

It is worth noting that since June 2006, postal and telecommunication services fees began to decrease considerably, at a rate of approximately 2-3%. This shows that opening up the post and telecommunication services market and allowing competition had a positive effect on reducing fees, which have long been considered too high compared to those in other countries and territories.

The most outstanding point in 2006 was that gold prices skyrocketed. Compared to December 2005, gold prices surged by a peak rate of 37.6% in May 2006. Such a sudden increase was largely due to a rise in the world gold prices. Demand for gold to make payments in real estate transactions have perhaps reduced, because the number of transactions in 2006 may not be as high as that seen 2 or 3 years ago, resulting from many integral parts of the real estate market becoming “frozen”. Therefore, the demand for gold may not have had a significant impact on domestic gold prices.

The exchange rate (USD/VND) during the first ten months of 2006 increased slightly, at 0.8%. With the surge of capital inflows into Vietnam (via both FDI, as discussed earlier, and foreign portfolio investment⁶), keeping the exchange rate fluctuation within a narrow band can lead to further appreciation of the VND, which is considered to have been significantly overvalued for many years. This can have an adverse impact on the country’s export performance in particular and the trade balance in general.

5. Overall assessment and some policy recommendations

In general, Vietnam’s economy continued to record quite high economic growth during the first ten months of 2006. Estimates are that most of Vietnam’s economic indicators will meet or exceed targets set for the year. However, there remain many factors that threaten the sustainability of

economic growth, such as inefficiency in State investment, a limited pool of quality human resources, low value-added levels and the poor competitiveness of goods and services. Shortcomings in State management have also resulted in environmental pollution in many provinces, and social evils remain serious. The limited capacity of the State apparatus, the slow pace of administrative reform and rampant corruption have also challenged the sustainability of the country's economic development.

Vietnam has joined the WTO and made significant commitments to opening up domestic markets, reducing tariffs and subsidies substantially while competitiveness is still limited. This has created a great deal of pressure and presented challenges for the economy in the post-WTO period. It is vital that Vietnam carries out proper reforms to maximize the benefits of WTO accession and minimize any adverse effects. Recent efforts in anti-corruption by the government are encouraging but should be continually strengthened. With greater political determination, Vietnam can integrate effectively into the global economy during the post-WTO period, enhancing the nation and its industrial competitiveness and guaranteeing the sustainability of economic growth over the long-term. □

Notes

1. Figures in this report were mainly provided by the General Statistics Office (GSO) of Vietnam.
2. The number of foreign tourists visiting Vietnam during the first ten months of 2006 was estimated at 2.95 million, an increase of 3.6%. This modest growth rate was primarily attributed to a sharp decrease in the number of Chinese tourists due to internal reasons.
3. According to the Bureau of Foreign Investment at the Ministry of Planning and Investment, as at 20 November 2006, total FDI inflow (including registered capital and additional capital) was USD8.274 billion, 47.4% higher than in the same period of 2005 and 31.7% higher than the targeted USD6.5 billion for the year as a whole.
4. In 2006, Binh Duong province topped the competitiveness rankings at the provincial level, published by the Vietnam Chamber of Commerce and Industry.
5. During the first eight months of 2006, the export value of Vietnamese goods to the US market was USD5.56 billion, while goods import value was only USD626 million (New York Times, 2006).
6. In 2006, Vietnam's stock market developed at a very high rate of growth. The VN-Index skyrocketed from 304.23 points (12 January 2006) to 809.86 (20 December 2006); the market's total capitalization increased from less than VND 10 trillion (USD 629 million) at end-2005 to VND 137 trillion (about USD 8.6 billion) as at December 12, 2006. The total value of the informal stock market is estimated to be three or six times higher than that of the formal market. With the right to possess a high proportion (up to 49%) of total assets of a shareholding company, and with abundant capital and professionalism, foreign investors have had a major role in market making and stock transactions (about 30- 40% of daily total stock turnover) in both the formal and informal stock markets. The booming development of the stock market has attracted a huge amount of capital into Vietnam.

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