

2.2.6 Trade Balance and Capital Inflow

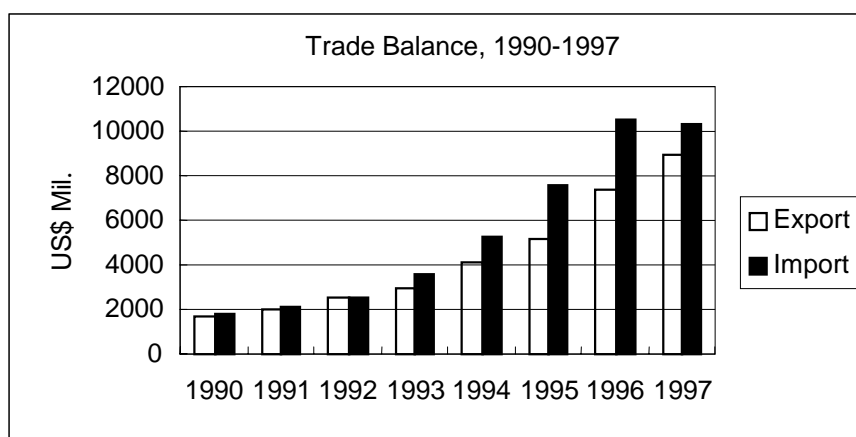
During the 1990s, Vietnam has always imported more than it has exported. The government has managed to avoid a balance of payments crisis by import contraction and high inflows of foreign direct investment (FDI) and official development assistance (ODA). The deficit in the current account in 1997 was US\$ 1,696 million or 7.6% of GDP.

As to trade structure, Vietnam exports agricultural and mining products, handicrafts and light industrial goods, while it imports refined oil products, fertilizers, steel, machinery and equipment, and transportation fleet.

Despite the government's policy to broadly distribute FDI projects, about two-thirds of these projects are still concentrated in the northeastern south in 1997 (53.7% of the total licensed projects).

Businesses viewed Vietnam's regulatory and external trade impediments as among the worst in Asia. The most daunting constraints cited by foreign firms are related to legal, regulatory trade and tax/tariff regimes. To ease these problems, Vietnam has committed to integrate into the international market through its membership in the ASEAN and Asia-Pacific Economic Cooperation (APEC), and is in discussions regarding its WTO membership. Vietnam is also part of the Greater Mekong Subregion (GMS) Economic Cooperation Program initiated by the Asian Development Bank (ADB). One result is the Hanoi Plan of Action of the 6th ASEAN Summit in 1998 which accelerates the implementation in Vietnam of AFTA-supported trade facilitation measures such as CEPT ¹ reduction.

Figure 2.2.5
 Historical Change in Trade Value



Source: IBRD, 1998

¹ Common Effective Reference Tariff: to be reduced to 0-5% by 2003 and to 0% by 2006.

Table 2.2.10
Major Commodities in Trade

	Item	1997
Exports	Crude Oil (000 tons)	9,614
	Rice (000 tons)	3,553
	Coal (000 tons)	3,449
	Rubber (000 tons)	981
	Coffee (000 tons)	389
Imports	Refined Oil Products (000 tons)	5,958
	Fertilizers (000 tons)	2,527
	Steel (000 tons)	1,401
	Motorbikes (000 units)	149
	Cars and Trucks (000 units)	14

Source: GSO, "Statistical Yearbook", 1998

Table 2.2.11
Licensed FDI Projects by Province, 1998

Region	No. of Projects	Amount (US\$ mil)
1. Red River Delta	57	582
2. Northeast	12	79
3. Northwest	1	11
4. North Central Coast	2	18
5. South Central Coast	15	1,357
6. Central Highlands	1	8
7. Northeastern South	171	1,758
8. Mekong River Delta	15	56
Total	274	3,869

Source: GSO, "Statistical Yearbook", 1998

Figure 2.2.6
 Urban Population Rate by Province, 1997

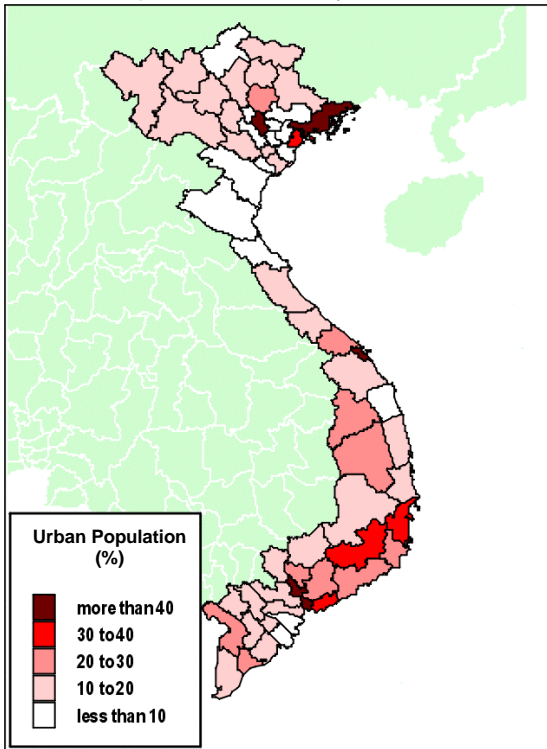


Figure 2.2.7
 GDP per Capita by Province, 1997

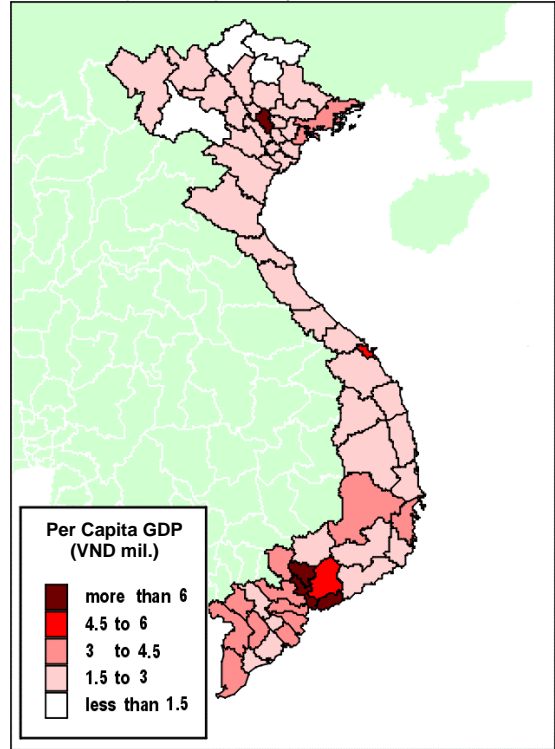


Figure 2.2.8
 Paddy Sown Area Density and Gross Output by Province, 1996

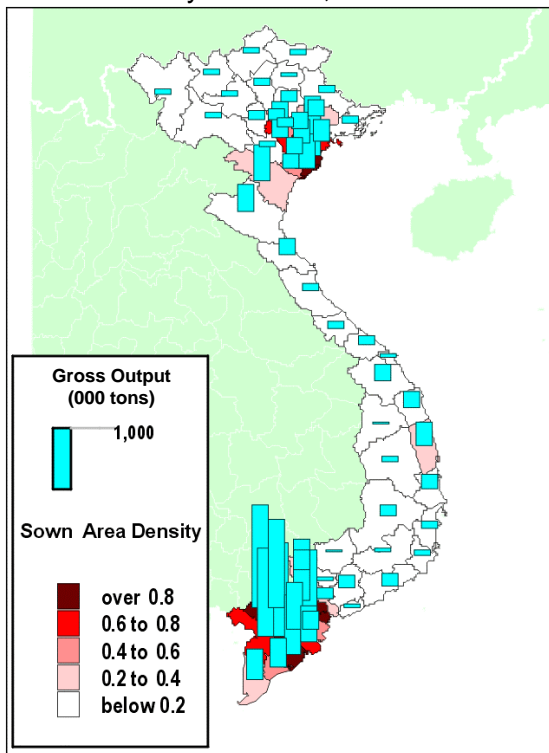
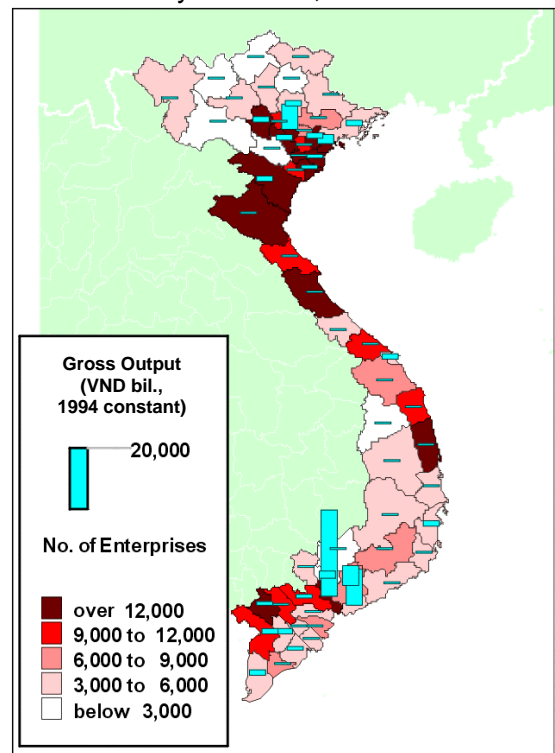


Figure 2.2.9
 Industrial Establishments and Gross Output by Province, 1996



Impact of the Asian Crisis

(Analyses from an Economic Report of the IBRD, December 1998)

- 1) *Stagnating Exports*: Due to the effects of Asian financial crisis, exports to Asia fell by 5% and 20% in 1997 and 1998 respectively. Only exports to China, Philippines and Indonesia grew in 1998. Vietnam exports are striving to diversity to non-Asian markets, particularly European countries and United States.
- 2) *Falling Foreign Investment*: Foreign investment inflows have fallen by around 60% in 1998 and are likely to fall further in 1999. New commitments are falling even more sharply – new licenses for foreign investment fell from \$8.5 billion in 1996, to \$4.0 billion in 1997 and \$1.8 billion in 1998. Moreover, the impact of the crisis is changing the nature of foreign investment flows. More than half of foreign investment came from outside Asia in 1998.
- 3) *Weakening Competitiveness*: The impact of the crisis has also made Vietnam less competitive, for two reasons. Firstly, there has been substantial currency devaluation in the crisis countries. Exchange rate in most of Asian countries was depreciated by around 35-40%. The dong, on the other hand, has been devaluated and, in real terms, appreciated relative to June 1997. Secondly, reforms currently being implemented in countries facing financial crisis will make them more attractive to investors and exporters than they were before.
- 4) *Pressure on the External Balance*: The above factors have led to pressure on Vietnam's external balance position. So far, Government has managed to avoid a balance of payments crisis by taking actions to compress imports, and to preserve or mobilize additional foreign exchange. The slowdown of export growth and reduced private transfers were more than balanced by import contraction and high inflows of FDI and ODA. In 1998, trade and current account balances are forecasted to come under pressure due to lower export growth and FDI flows. As a result, current account deficit was expected to decline from 7.6 percent of GDP in 1997 to 4.6 percent in 1998.
- 5) *Slowdown in GDP growth*: GDP growth has reduced since 1997. The GDP growth in 1998 was estimated to be around half the rate of previous years. The estimate is lower than the Government's estimate mainly due to differences in industrial and service sector growth rates.
- 6) *Poorly Performing State Enterprise*: More than half of Vietnam's 6,000 state enterprises were unprofitable even in 1997, and additional pressures have appeared in 1998.
- 7) *Worsening Condition of Banks*: Banks have found it more difficult to recover loans. In a number of banks, overdues have reached dangerous levels, and the capacity of the system to intermediate funds is threatened.
- 8) *Public Services and Fiscal Balance under Pressure*: Weaker corporate performance and trade tax receipts have reduced resources for public spending. As a share of GDP, budget revenues have fallen in 1998, Vietnam has to choose a prudent fiscal stance.
- 9) *Increasing Unemployment*: In 1997, employment growth was negative for the first time since Do Moi reforms were initiated. In 1998, the situation was worse. Both industry and agriculture actually lost jobs, and the low productivity service sector was forced to take up the role of "employer of last resort".
- 10) *Reduced Incomes of the Rural Poor*: In Vietnam, about 90% of the poor live in rural areas and only 30% of which depend on farming alone for their incomes. The current slowdown in economic growth will affect only agricultural incomes of the poor, but also opportunities to supplement their farm incomes from off-farm activities in the manufacturing and rural service sectors.
- 11) *Erosion of Informal Safety Nets*: There is some evidence that as the economy is slowing, the system of informal social safety nets that have traditionally been provided within and between households may be eroding as more lucrative formal employment becomes less secure.
- 12) *Reduced Social Spending*: With reduced availability of budget resources, public spending on education health may stagnate or fall this year. It will directly or indirectly hurt the poor. Reallocation of spending

The current slowdown has important implications for Vietnam's investment program in infrastructure. The resource shortfall calls for a new pattern of financing, a greater efficiency of resource use, and more careful prioritization of investments with greater emphasis on social benefits. In usual, financing will come from four main sources, i.e. the government's own budget, ODA and official finance, foreign direct investment, and self-financing from SOEs involved in infrastructure. The first two sources have traditionally dominated the financial picture. How to increase financing in the final two categories would be important issue. Another one to acquire financing is to greatly raise and effectively use private provision. To raise the share of self-financing for infrastructure investment, and attract private sector participation, however, a more rational pricing and taxation system will be required.

2.3 Regional Structure

2.3.1 Transport Linkage with Neighboring Countries

The world economy has been seeking for strong trade partners to boost the economy with the assurance of a larger market and accessibility to wage-competitive and highly trained human resources as well as technologies and capital. This policy has resulted in various schemes that have encouraged economic linkages all over the world. The most prevailing forms are regional trade zones, such as the European Union (EU), North America Free Trade Area (NAFTA) and AFTA, and free or liberal trade agreements.

Vietnam's participation in these economic cooperation/integration schemes would facilitate international transport and liberalize transport services, whether sea, air or land network.

Vietnam and its neighboring countries are characterized by mountain ranges and rivers running in the north-south direction. Their territories also follow the same orientation. Up to now, rivers and the coastline serve as trunk transport corridors for agricultural products and daily commodities, but there is no east-west connection across mountains. However, the GMS Program, as well as ASEAN's initiatives such as the ASEAN Highway Network Project and the Singapore-Kunming Rail Link Project, highlights many east-west linkages across mountain ranges, rivers and borders. Different from the conventional north-south transport corridors, the east-west transport corridors intend to facilitate cross-border traffic and support subregional economic integration (refer to Figure 2.3.1 and 2.3.2).

These new transport corridors will impact on Vietnam's national transport system to a great extent. Rapidly increasing cross-border traffic will activate the local economy of Vietnam's border provinces which are lagging behind and did not enjoy the economic growth experienced in the 1990s (refer to Table 2.3.1). It is considered a new paradigm for Vietnam to promote regional development. As the north-south transport corridors strengthen the nation's unification and stimulate the sluggish local economy in the central region, the east-west transport corridors will provide more economic opportunities to border provinces and carry transit cargo to/from Vietnamese ports.

Figure 2.3.1 Subregional Setting



Figure 2.3.2 Subregional Corridors (Existing Construction and Under Planned)

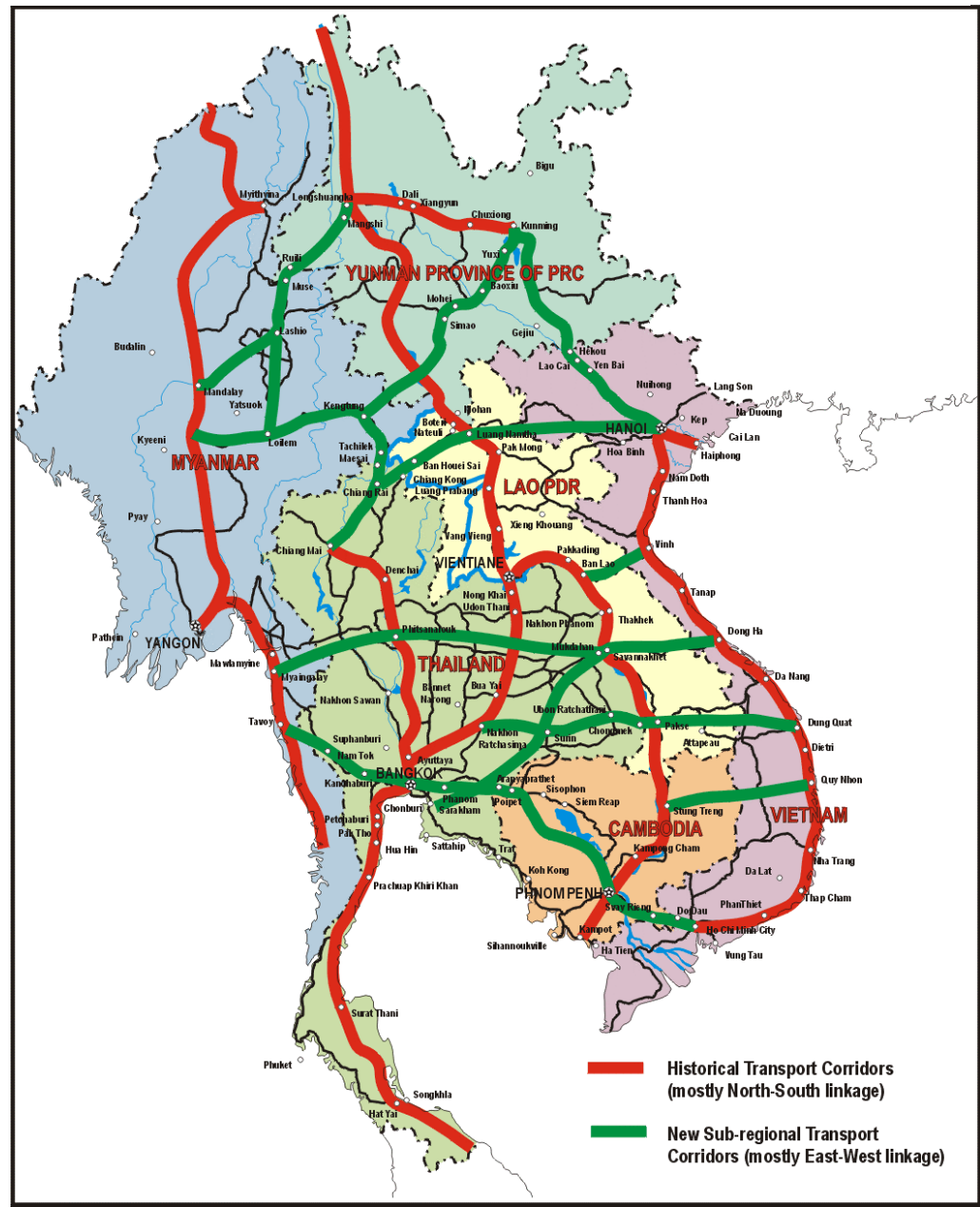


Table 2.3.1
Border Provinces in Vietnam

Area	Area (km ²)	Population 1997 (000)	GDP 1997 (VND bil.)	Per Capita GDP (VND bil.)
6 Border Provinces with China ^{1/}	53,525	4,029	9,118	2.26
10 Border Provinces with Lao PDR ^{2/}	91,231	13,924	28,898	2.08
8 Border Provinces with Cambodia ^{3/}	64,136	10,033	32,084	3.20
24 Border Provinces in total (A)	208,892	27,986	70,100	2.50
Country Total (B)	330,992	75,665	273,966	3.62
Share of Border Provinces (A/B)	63.1%	37.0%	25.6%	69.1%

Source: GSO

1/ Cao Bang, Lang Son, Quang Ninh, Lao Cai, Ha Giang, Lai Chau.

2/ Son La, Thanh Hoa, Nghe An, Ha Tinh, Quang Binh, Quang Tri, Thua Thien Hue, Quang Nam, Quang Ngai, Kon Tum.

3/ Gia Lai, Dac Lac, Binh Phuc, Tay Ninh, Long An, Dong Thap, An Giang, Kien Giang.

2.3.2 National Transport Network

The spatial organization of Vietnam is focused around two nodes situated at either end of the country.

In the north, economic functions are divided between the port city of Hai Phong and the country's capital, Hanoi, located at the heart of the Red River delta. Hanoi serves as hub of the transportation network, consisting of roads, inland waterways and railways, in northern Vietnam. In the south, HCM City, located between the eastern plains and the Mekong delta, is both a significant economic center and a major port city. Connecting these two major nodes by road, rail and sea is the principal transport corridor, National Road No.1 (NR1), extending from China to Cambodia and running through the central region along the coast. NR1 plays an important role in polarizing population growth in the main cities in the central region.

The density of the regional transport network varies. The northern region has the most dense road network combined with a good inland waterway network, while in the southern region the major transport system is a criss-crossing inland waterway network. The road density in the central region is quite low compared to that of other regions. The poor situation is exacerbated by the fact that (i) most of the provincial and district roads are earth roads impassable during some parts of the year and (ii) navigable inland waterways are short and not integrated.

There are numerous seaports and river ports in the whole country, out of which eight major seaports are located at an average of 350-km interval. Since most settlements are distributed along rivers and channels, coastal and deep-water ports are limited. For engineering reasons, suitable locations are scarce in the north as well as in the south. Only the central region has suitable sites, but its settlements and establishments are scattered.

Figure 2.3.3-a
National Transport Network: North to Central

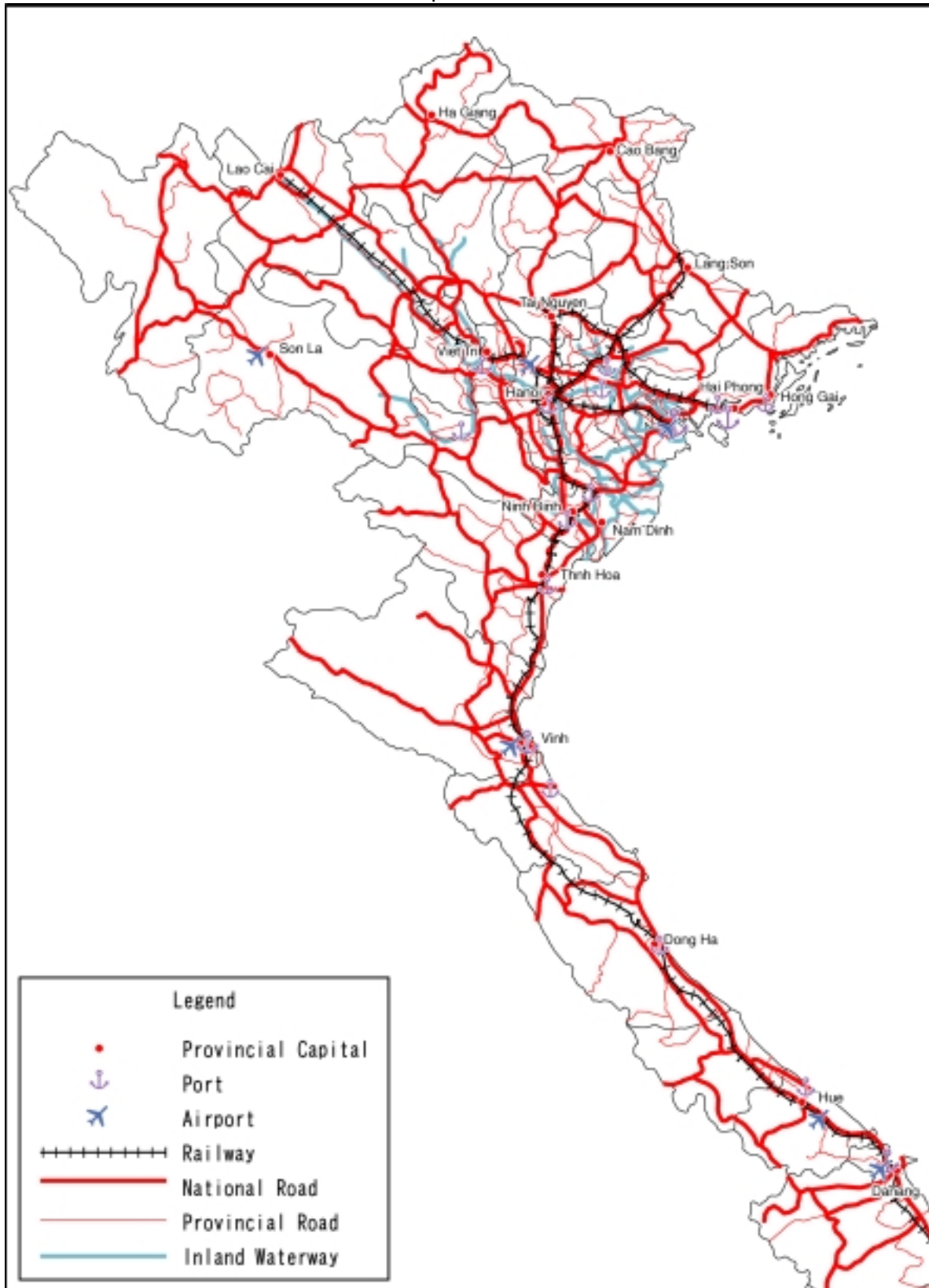
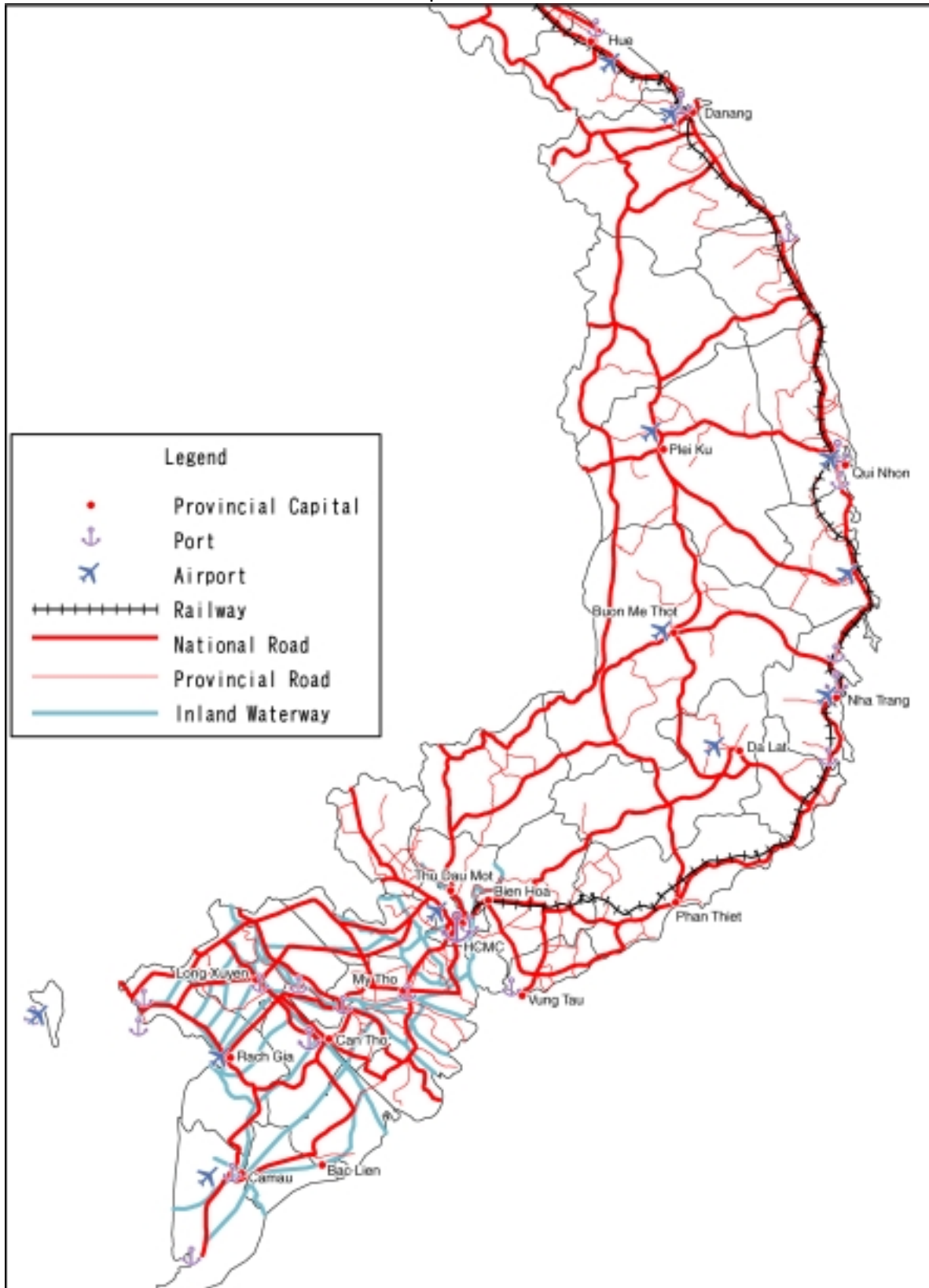


Figure 2.3.3-b
National Transport Network: Central to South



The VR network extends from two Chinese borders to HCM City in the south. It has three branch lines in the north. The country has 18 airports for civil aviation, three of which receive regular international flights.

Table 2.3.2
Road Length and Density by Region, 1995

Region	Road Length by Jurisdiction (km)				Area (km ²)	Road Density (km/km ²)
	National	Provincial	District	Total		
North	6,667	7,364	17,656	31,687	115,550	0.274
Central	5,956	6,992	14,235	27,183	152,540	0.178
South	2,087	3,527	7,382	12,995	62,950	0.206
Total	14,710	17,883	39,273	71,866	331,040	0.217

Sources: Ministry of Transport and TDSI

2.3.3 Urban Centers

Cities and towns serve economic, residential and other urban functions such as educational and cultural centers of their respective regions, provinces and districts. The government has kept a decentralization policy which avoids overpopulation in selected big cities and creates a number of small to medium-size urban centers.

In the past, the government attempted such a decentralization policy. In the early 1960s people in the Red River delta region were encouraged to move to the mountainous areas of northern Vietnam for land cultivation and economic and cultural development. However, when the country was reunified in 1975, migration from the north to the south occurred, although not all of these people (2-3 million) became permanent settlers.

Currently, nearly 50% of the urban population of Vietnam is living in Hanoi and HCM City. The average urbanization pace of these two cities is 4-5% annually while economic growth rate is 16-18% per year. The urbanization process has been without strict land-use control and other management measures. It is not an explicit phenomenon all over the country, although the income imbalance between urban and rural dwellers widened from five times in 1990 to eight times in 1997.

Existing urban centers, 86 in total except district centers, are composed of two national centers, seven regional centers, 12 major local centers, and 65 provincial centers (see Table 2.3.3 and Figure 2.3.4).

Table 2.3.3
Classification of Urban Centers

Classification	Population Size (mil.)	No. of Urban Centers
National Center	2.5 – 5.0	2
Regional Center	0.2 – 1.7	7
Major Local Center	0.1 – 0.3	12
Provincial Center	0.01 – 0.2	65

Source: TDSI

Figure 2.3.4
Present Classification of Urban Centers

