

Country Report

Vietnam

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COUNTRY REPORT FOR 2006 – VIETNAM

-Main Report-

1. Introduction

In 2005, Vietnam witnessed number of natural and human catastrophes, starting by booming in oil price; biggest storm ever for ten years in July, and ended by persistent bird flu epidemic occurred again in November.

Oil price booming, on one side, generated great earning for Vietnam from exporting crude oil. It however, caused negative effect to other domestic sectors using oil products; and was believed main reason for growing of consumer price index (CPI). Up to middle of 2005, after several months trying to sustain retail price (reduce import tax to zero, subsidy retail price etc) the government had to let retail price increased due to the heavy burden for state budget and there were evidence of smuggling petrol through border with China and Cambodia.

Storms came in the central and north coastal provinces of Vietnam heavily damaged those provinces both in term of property and human. The sea bank system was broken and all most all paddy fields in coastal areas flooded with salty water. The consequence was said heavily and could take couple of year to overcome. As initially assessment, those disasters caused property damages of VND5200 billions (US\$329 million) and claim 293 lives, five times higher than 2004.

Persistent bird flue occurred again in November and soon spread over 20 provinces and yet ended. It is estimated raising the loss of VND2000 billions for farmers due to sluggishness in consumption of those products. Bird flue also resulted in increase in price of substitution meat like pock and fish and largely contributed to the overall CPI in the last three months.

In 2005, Vietnam missed its target of joining WTO on December although the government had paid great effort. The visit of Prime Minister Phan Van Khai to United State of America placed a corner stone for the relationship between the two countries after 10 years of normalization and five year of BTA implementation. However this visit did not support as much as expected for the bilateral negotiation between Vietnam and America under WTO framework. So far, America has been the biggest constraint for Vietnam on the way to joining to international market. The reasons are explained by tough requirements from America that partially rooted from slow reform in Vietnam, especially in SOEs

The year 2005 marked the first time the government bond has been issued internationally in New York Stock market. With total issued value \$750 billions, the result was far beyond expectation. As assessment of financial experts this success reflects the rising reputation of Vietnam economy in international market.

After many years of delay and persistent debating on building site and selecting foreign counterpart, Dung Quat oil refinery was started to be built by Vietnamese themselves. Once completed, it will satisfy about one third domestic petrol demand, reducing the foreign currency pressure for import. The year was also the time for starting some other big energy projects. In combination with building several thermo-electric stations, Son La hydro-electric station that is though the biggest one in East Asia with total investment of about US\$2.4 billions was launched. The starting of those constructions indicates the increasing demand for energy in coming time when Vietnam pushing up industrialization process.

The government pushed up the equitization process in some major SOEs by opening the door for them to offer their stock on stock market. Vietcombank (one of big state owned commercial bank) Bao Viet Insurance Company, Vinamilk (biggest state owned milk company), Mobinephone (state owned telecommunication company), Vietnam Electric Corporation were pioneer on this process. However, the equitization process of SOEs was still criticized as too slow. So far there has been 10% of state owned capital is equitized. The biggest problem is found in evaluating SOEs asset and some issuing underlying in accounting, employment etc..

The year 2005 was the last year of implementation the master development plan 2001-2005 that is said as successful period of social and economic development. In this period almost all important social and economic goals was reached: GDP growth was as higher as 7.5%/year; agriculture sector grew by 3.8%; industry: 10.2% and service: 6.9%; export increased by 17% (far from the target that was set at 14-16%). 7.5 millions jobs were created in which 91% by non-state sector; poverty reduction was achieved significant, reducing to 7% (the poverty line of Vietnam)

2. Domestic Economy and Labor market

- The economy overview

Policy reform was continued and the year 2005 was a busy year for policy makers. In general policy reform shows positive trend since the government would like to accelerate the joining WTO process. The highlight for policy improvement was: (1) the approval of the common Investment law and unified Enterprise Law after many years SOEs, domestic private and FDI enterprise operating with separate laws that was claimed as discriminating and unfair business environment; (2) the approval of Anti-Corruption Law, essentially aims at increasing the transparency of the state apparatus while making state officials fully accountable for any wrongdoing; (3) Procurement Law that was expected to overcome the complexity and plenty shortcomings of procurement activities; (4) Copy Right Law was also approved in the year to meet with international requirement for copy rights. However, as assessed by business sector, the business environment though improving but as not much as officially assessed. Continuously frozen real estate market may have severe impact on other sectors as few enterprise acquired land and large amount of credit stuck in this market instead of being provided to producers. In some places current infrastructure showing its poor satisfaction to the increasing business requirements e.g. lack of electricity, telephone, traffic congestion etc making the production cost increase. In association with slow reform in SOEs, many thing are supposed to be done next year.

GDP growth in 2005 was estimated at 8.4%, highest ever for recent five years. Growth of agriculture sector was recorded at 4.1%; construction and industry: 10.7%; service: 8.4%. The economic structure, thought shifting, shows its small change. Proportion of agriculture was reduced from 21.8% in 2004 to 20.7%; of service sector increased from 38.1% in 2004 to 38.5%. As analyzed by some economists, drawback and problem remains in 2005 concentrated on: The quality of growth and the competitiveness of the economy are still low and unsustainable. The growth is still said contributed largely by extensive use of input factors instead of technology improvement. There was still too much reliance on state investment and state subsidies as well as protection policy. The economic restructuring was proceeding at a slower pace than scheduled including for industry, technology, labor. Policy orientation is clear but few specific measures have been taken¹

Table 1: Social and economic performance of Vietnam in 2005

<i>Indicator</i>	<i>Value</i>
Population (million people)	83.1
Export (US\$ billion)	32.2
Import (US\$ billion)	36.9
ODA committed (US\$ billion)	3.7
FDI registration (US\$ billion)	5.8
Investment in GDP (%)	32
CPI (%)	8.6

Source: Ministry of Planning and Investment, 2005

Although CPI was observed lower than last year it still was remarkably high, about 8.4% for the first eleven months. CPI were said largely driven by oil price booming (for 2005 the retail price of oil was adjusted three times with total about 55%); export price of some other commodities, increasing in demand for construction due to the quick urbanization and industrialization; bird flu in last two months. It is notable that similar with 2004 CPI increased far from the target defined by National Assembly (6.4%) and especially the figure in last two month contributed largely to the annual CPI.

Vietnam continuously faced trade deficit (about US\$4.7 billion) although it declined little compare to 2004. Export was reached US\$32.2 billion, increased by 21.6% comparing to 2004 and surpassed the target 4%. As calculation by the Ministry of Commerce, export quantity increased by 9% and export price increased by 11% that

¹ Assessment of the Economist Intelligence Unit, the UK, www.eiu.com

mean increase in export price explained 58% the increase in export turnover. Some high export growth commodities were: rice (49%); vegetables: (36.1%) rubber (26%); crude oil (34%); coal (80.6%); electronics appliance (36%). New market for exporting-Africa-shows the growth rate 84%; and EU was the market with lowest growth 6.7%. Total import turnover was recoded at US\$36.9billion, increased by 15.4% comparing to 2004. However increase in import price largely explains the increase in import value. For the whole year, import price increased by 11.5%, contributed 75% the increase in import value.

According to the Vietnam Leather and Footwear Association, Footwear export turnover was estimated to reach US\$2.9 billion this year and increased of 13.6% against last year. The EU market account for 65% of the country footwear export. A bad news is that EC intent to apply the anti-dumping tax of 130% to Vietnam leather footwear. EC made this conclusion after two months directly examining some footwear companies. Based on five EC's criteria, non of eight surveyed enterprises was operating in accordance with the market mechanism e.g. their production decision was made based no market signal and the accounting system of some companies were found to be noncompliant with the international accounting system. If it becomes true, then the industry will be heavily affected, and more difficult for Vietnam to compete with other countries, especially China.

The year 2005 also marked the recovery of external capital flow to the country. In the conference hold in Vietnam from 6-7 December, 2005 foreign donors committed to support Vietnam with ODA commitment above \$3.747 billions that is ever highest sine Vietnam has opened the economy. FDI attracting was recovered with US\$5.8billion registered ever highest since 1998, increased by 25% comparing to 2004 and 2% to the target. Like 2004, FDI inflow focused on manufacturing and services and on regions with favorable condition e.g. Ha Noi, Ho Chi Minh city and the surrounding provinces. For instance among US\$5.8 billion registered Ha Noi attracted US\$1.8 billions, Ho Chi Minh city: US\$0.8 billions, Binh Duong US\$0.78billion that accounting for 60% of total FDI inflow. FDI sector now has shows more and more important role as it contributed 45.2% total export, increasing by 26% comparing to 2004 and contributing greatly to export growth while domestic firm just increased their export by 14.3%.

Corruption was continuously severe problem in the year. 2005 witnessed with number of cases and scandals. Some of especially severe ones were found in Petro Vietnam, Electricity Company in HCM city. Due to the increasing corruption the government of Vietnam established a specialized committee headed by the Prime Minister in charged of anti-corruption. In 2005, the first time the list of 10 organizations those was claimed for suffering heavily corruption were published including: land management, customs/import-export management authorities, and traffic police, finance, construction, healthcare, planning and investment, economic police. 80% interviewed people said that corruption happened more severe in administrative authorities and by powerful individuals and the biggest reason for corruption is their cupidity not by their poverty. 25% interviewed officials said that they have ever witnessed the corruption of

their boss and one third interviewed official confessed that they would be willing to corrupt if some one offer.

- Employment and labor market

Proportion of labor force in agriculture reduced from 68.2% in 2001 to 57% in 2005 while that of industry increased from 12.1 to 18% and in commerce and service from 19.7 to over 25%. Employment survey conducted in Jul 2005 revealed a gloomy picture of employment force in Vietnam when it stated that though increased in total amount, the quality of labor slowly changed comparing to last year. By 2005, the educated and skilled labor ratio was 24%, increased only 2.6% from 2004 and far below the target 30%. The weaknesses of labor force in Vietnam in 2004 continued in 2005: high unemployment among young people; poor performance of occupational training; less developed labor market especially in rural areas.

Unemployment in very active economic regions was surprising when it was recorded at about 5.3% reduced by only 0.3% comparing to last year. Especially, it was so high among young people (15-24 aged), about 13.4%. In rural areas, the working time ratio is 80.7% increased only by about 1.6%. Although there was high unemployment among young and graduated student, in 2005 many enterprises in actively economic regions claimed for being unable to recruit enough relevant skilled and educated labor. Such situation on one hand reflects the inappropriate education and occupational training system, on the other hand reflects irrelevant policy by both the government and enterprise e.g. providing accommodation for worker, rising wage for employee in accordance with increasing living cost etc.

The survey on salary and wage conducted in 2005 (sample of 208 enterprises and 35 thousand workers) showed that the increase in average wage of unskilled labor was 7.8% and for managerial staff was 10% compare to last year. In general the wage increase was higher than GDP. The survey's results also show that the average wage paid by domestic enterprise was increasing higher than by FDI enterprise from 2-3% in 2005. So far the gap has been till 34% and being hoped to be narrowed. Other interesting finding from the survey is that the correlation between education and wage in closer and closer. Those who have technical certificate were paid 43% higher than non-certificated labor. Those who graduated from collages were paid 51% higher than those just have technical certificate issued by occupational training centers. In association with the figure of labor turnover that was 23% (increased by 7% comparing with the figure produced by some sample surveys in 2002) it is positive signal of the economy and reflects the fact of severer competition in labor market, especially the competition for attracting more high skilled and educated labor. As information from MOLISA, in general, nominal income of a wage earner increased by 15.4%; 14.34% for urban and 18.87% for rural people. Due to the surpassing of growth in wage of rural to urban people, the urban-rural wage gap reduced from 1.3 to 1.25 in 2005

As informed by MOLISA, minimum wage in FDI sector will be adjusted increasing by 25.5% in 2006. The minimum wage for FDI enterprise was firstly built in 1989, adjusted in 1999. Since then average wage has increased by 35-40% and minimum wage for domestic firm increased by 60%. Furthermore by the increase in the CPI from 1999

was 25.5% the real wage in fact is not as much as expected. However, the increase in minimum wage is expected having few effect on the real wage, it is said that currently almost all enterprises pay their employee higher than minimum wage, although the payment written in labor contract is just equal the minimum wage. The rest is paid under forms of bonus, subsidy for lunch, for weather etc. Reason for doing so is that they try to avoid paying union fees, social insurance fees that is regulated as 15% of contracted wage and being paid by labor user. So increase minimum wage will not affect the current wage received by employee but affect to employer especially those who are labor intensive user. MOLISA has prepared scheme to increase minimum wage by that minimum wage for FDI and domestic firm is expected to be the same in 2008.

+ *Migration*

In 11 November, 2005 the government issued Decree 141/2005/ND-CP on managing Oversea Vietnamese labor. This decree regulates the responsibilities of labor export agents, the labor themselves, guarantor, and related authorities. The decree also introduces remedies applied for violation in the field of labor export. According to that, many activities is strictly prohibited including: (1) bring labor to work for sector that is illegal to Vietnamese law and foreign law; (2) illegally collecting money of labor; (3)bring labor abroad without legal contract;(4) escape of labor after immigration. Those who violate this regulation are subject to be fined from 20000 VND to 20 millions (US\$1300). The Degree was issued to correct labor exporting that was said too complicated and disordered that generating more disadvantages and loss for laborer, especial those who are the poor.

Table 2: Exporting labor in Vietnam

	<i>Unit: People</i>				
	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005*</i>
Total	36 168	46 122	75 700	67 447	57 500
<i>In which:</i>					
South Korea	3 910	1 190	4 226	4 779	3 850
Japan	3 249	2 202	2 264	2 752	2 500
Malaysia	23	19 965	39 624	14 567	19 500
Taiwan	7 782	13 191	27 981	37 144	20 750
Other countries	21 204	9 574	1 605	8 205	10 900

Sources: Labor Statistical Year book (2001-2004), MOLISA

(*)The figures for first ten months of 2005, Department of Overseas Labor, MOLISA

In general, in the year 2005 the problem of labor escape after going abroad in some Asian markets happened less than 2004. For first ten months, Vietnam exported about 57500 labors, and estimated about 69500 for the whole year, increases by 3% comparing to 2004. Some large markets are Malaysia, Taiwan, and South Korea (see table 2)

The biggest barrier for labor who would like to work abroad is that they have to pay high initial cost. For example to go to Japan they have to pay US\$2000 and US\$6000-10000 as deposit in case of escape. To South Korea this payment is US\$6000-7500. The

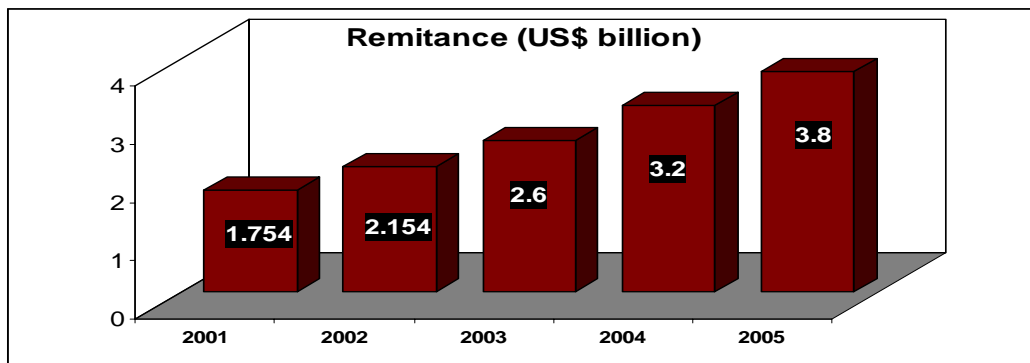
cost for going to Taiwan market is also increased comparing to previous years. If in 2002 they paid US\$1500, this year it is US\$4000-5600. Within the total cost, the intermediate and transaction cost normally occupy 30-40%, especially for Taiwan market, 70%. It is remarkable that the intermediate cost is increasing by competition between many Vietnamese agents with few foreign counterpart. Other reason is that labor themselves lack of information, so they have to pay too much for intermediate agents.

Currently the export of high skilled and high paid labor is raises however many things remained. The biggest problem, besides language issue, is the harmonization and compliance of certificate system of Vietnam and international conventions.

As informed by some labor export agents, as far as they known only 20% of labor who came back from working abroad can find job in domestic labor market. Although exporting labor is evaluated has substantial impact on poverty reduction, solving the problem when they come back is still left open. This situation also raises the fact of much labor escape from the contracted company in foreign countries and work as illegal workers there. The reason is they afraid of not being able to find similar job when they come back. So far there has not any research investigating this issue. It also suggests the policy making to have a comprehensive program for exporting labor, not only trying to send labor abroad as much but also facilitate them when they come back home.

In association with labor migration, remittance from oversea labor was defined important source for investment. This year, the remittance reached new record \$3.8-4 billions, increasing remarkably compare to last year (about US\$3.2 billion).

Graph: Remittance to Vietnam



Sources: <http://www.vneconomy.com.vn>

In 2005, the capital account deficit as estimated about US\$5 billions in which remittance contributed about 3.8 billions helping to complement trade deficit and generate a large amount for foreign currency supply. Comparing to FDI inflow in 2005 (US\$5.4 billion) this flow of capital is significant. For some new labor market e.g. Taiwan, Japan, Korea and Malaysia remittance is largely send to rural areas to improve the living of their family and is expected to increase household saving in coming years. For traditional markets like America, France, Canada, Australia, remittance is largely invested in business sector.

Reasons for increasing remittance are said the open policy and more convenient money transfer service were set up. In some place remittance receiver is not need to pay

tax, or fees. The reform in banking procedures and more bank representative setting up in foreign countries also contributes much to this positive trend. Number of money transfer agents increased from 30-40 in 2004 up to almost 100 in 2005. By that, the competition within those agents is also higher. The competition concentrated not only on reducing the transfer fees but also on shortening time for transfer money.

Regarding to immigrant to Vietnam, for recent 3-4 years, visitor to Vietnam increased by 20-30% and is expected increasing going up significantly after Vietnam joint WTO. As latest news from Tourist Department of Vietnam, there have been 3.4 millions foreign visitors to Vietnam. If bird flue has not occurred the figured would had been 3.5 million. With over 300 thousand visitors, South Korea was becoming market with highest growth rate, almost 50% for the year 2005.

Table 3: Foreign visitors to Vietnam 10 months of 2005

	<i>Visitor (people)</i>	<i>Percent</i>	<i>Growth (to 2004)</i>
By country	3140426	100	
China	684054	21.78	-4.3
America	299442	9.54	21.1
South Korea	289741	9.23	44.4
Taiwan	260987	8.31	12
Japan	298979	9.52	22.5
Cambodia	169917	5.41	16.2
Australia	132398	4.22	17.7
France	114779	3.65	20.03
The UK	73828	2.35	13.3
Germany	58531	1.86	13.7
Other countries	757770	24.13	
By travel way			
Airway	2089978	66.55	27
Sea	117592	3.74	25.3
Road	872756	27.79	14.6
By purpose of visit			
Tourist	1841328	58.63	28.9
Business, working	445643	14.19	5.6
Visit relatives	464727	14.80	10.4
Other	388728	12.38	20.4

Source: Tourist Department of Vietnam, 12/2005

(3) Outlook for economic and migration policies and their likely impacts

The year 2006 is very important year for Vietnam. Although Vietnam missed joining WTO in 2005, it is hoped to joint in 2006 and new perspective, opportunities and challenging are waiting for Vietnam economy. Policy reform will be pushed up by accelerating SOE equitisation especially state owned commercial banks. As forecasted by the Ministry of Planning and Investment (MPI), although government's budget deficit will expand in 2006 due to expansion of government expenditure for some big

constructions, increasing in salaries for public sector etc the budget will be still sustainable. Revenue will remain strong due to reform in tax collection as well as from economic growth and high international price of crude oil (although is believed reduced still being at high level). Export is hoped to reach a new record, US\$38 billion although there are some issues emerged e.g. textile and footwear claim with EC and the export growth to America is said will be slowdown. Poverty reduction will continuously obtained significant achievement though new poverty line will be applied for the year 2006.

For labor market, 2006 is the time that unified Enterprise law and common Investment Law will take effect, it is hoped that more jobs will be created as more newly established enterprises and launching new investment project by total current 200 thousand enterprises. Since 1 January 2006 over 95% tax lines for import good will be reduced down to 0-5%. This reduction is set as AFTA commitment. As comments by many experts, if this adjustment is applied there would be significant impacts on number of domestic enterprises operating in important sectors including manufacturing electronics, machinery production etc. Domestic enterprises in those sectors will face more difficulties in keeping their production against the import goods that conventionally evaluated better quality and now cheaper price. The import tax adjustment is said not harm much on employment because the heavily affected sector are electronic, automobile and the like that are all less labor intensive industries.

At the end of September 2005, the Prime Minister issued a decision by which foreign investors (including oversea Vietnamese) can share 49% of stock company instead of 30% before. In addition, the implementation of the policy that oversea Vietnamese are allowed to buy house and land is taken into affect. More foreign investment is expected (FDI is expected to achieve US\$6 billion). In 2005, the real estate market in Vietnam shows its slowdown after some years of booming. The law on housing and law on real estate market will be approved in 2006, in combination with the regulation by that oversea Vietnamese people can buy house and land, remittance flow may be much more than the year 2005. If those capital flows are increasing, more jobs will be created and is hoped substantially reducing the pressure of unemployment among young people.

Vietnam is showing its effort to accelerating labor exporting in coming year to reach the target of 100 thousand labors exported each year. MOLISA is preparing the project, providing training for rural labor who wants to work abroad. Priority will be focus on young people and ethnic minority people. If this project successes in 2006 more labor from rural areas will be exported. In addition, the fund for exporting labor with total initial fund from state budget of about US\$1 million will be continued in 2006. Law for Labor Exporting also will be submitted to the National Assembly in 2006. Fund for employment generation is setting the new target in 2006, by which VND1230 billion (US\$77.3 million) will be provided to generate job for 350 thousand jobs. It is expectantly that more money from this fund will be allocated on occupational training, reinforcing training centers. Domestic migration is also expected growing further in 2006 due to FDI and domestic investment is continuously focusing on some actively economic region surrounding Ha Noi and Ho Chi Minh City.

Middle East is specified as new potential market for exporting labor. In 20 September 2005, a delegation of MOLISA was sent to Middle East for investigating this

market. As initial assessment, Middle East is open and potential labor market that Vietnam can export their labor to. From 2006 to 2010 Vietnam plans to export 100 thousand labors each year. To reach this target, it is clearly that exploring the labor market in Middle East is very necessary for Vietnam. Currently, there are about some thousand Vietnamese labors working in United Arab Emirates, very few if comparing to East Asian market. America is also hoped a new market. For the year 2005, there were 2000 labors exported to this market, mainly involved in farming sector. Export labor to this market will be pushed in the year 2006 if some issues relating to fees and language are solved.